

**FY '07 BUDGET AND REAUTHORIZATION
PROPOSALS OF THE SBA**

HEARING

BEFORE THE

**COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES**

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CONTENTS

WITNESSES

	Page
Barreto, The Honorable Hector, Administrator, U.S. Small Business Administration	5
Smith, Ms. Patricia, PEMBA Lighting and Automation	21

APPENDIX

Opening statements:	
Manzullo, Hon. Donald A.	36
Velazquez, Hon. Nydia	73
Prepared statements:	
Barreto, The Honorable Hector, Administrator, U.S. Small Business Administration	75
Smith, Ms. Patricia, PEMBA Lighting and Automation	96

FY '07 BUDGET AND REAUTHORIZATION PROPOSALS OF THE SBA

Wednesday, March 15, 2006

HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS
Washington, DC

The Committee met, pursuant to call, at 2:45 p.m., in Room 2360 Rayburn House Office Building, Hon. Donald Manzullo [Chairman of the Committee] presiding.

Present: Representatives Manzullo, Bradley, McCotter, Westmoreland, Velazquez, Udall, Lipinski, Christensen, Bordallo, Barrow, Moore.

Chairman MANZULLO. Today, the Committee will examine the President's Fiscal Year 2007 Budget Reauthorization Proposals of the Small Business Administration. The President's Budget request includes \$624 million in spending for the SBA in Fiscal Year 2007. This is about 37 percent less than what was spent on the SBA in Fiscal Year 2001, while in the same time, the SBA served more small businesses than ever in its history. The SBA certainly knows how to do more with less and it ought to be commended. While the President's budget request for the SBA is generally sound and reasonable, there are few notable exceptions particularly the proposal to increase fees in the SBA's finance programs to begin to cover some administrative expenses and the idea to institute an adjustable interest rate for disaster loans in the fifth year.

However, I would be negligent if I did not remind my colleagues and the small business community that the President's budget request also includes the following key tax relief proposals of keen interest to small businessmen and businesswomen.

1. Making permanent the tax cuts previously passed by Congress including death or an estate repeal in which the average tax savings in 2005 was \$3,235 per small business according to the U.S. Treasury;
2. Making contribution to the Health Savings Account tax deductible; and
3. Enacting an even higher and permanent small business expensing limit to \$200,000.

The Committee is also in the middle of a comprehensive review of all SBA's programs which has not been done since 1995 in preparation for reauthorization. In 2004, Congress passed a two-year reauthorization bill that made a variety of significant changes to the policies and small business programs of the SBA. The Committee is reviewing how the SBA has carried out the various pro-

grammatic changes contained in the previous reauthorization and ideas for further reform.

Two weeks ago, Representative Musgrave's Subcommittee examined SBA's entrepreneurial programs. Last week, Representative Bradley's Subcommittee reviewed SBA's finance programs and before the March District work period, Representative Akins' Subcommittee will conduct an oversight hearing on SBA's procurement programs.

Today we're honored to have the Administrator of the SBA, Hector Barreto testify before the full Committee to discuss his vision of the direction of the SBA for the remainder of the administration. Mr. Barreto is the second longest serving SBA administrator in its history and I am pleased that he has taken the time to be with us this afternoon.

Through the hearing process, the Committee has received input from SBA stakeholders as to what should or should not be included in the authorization package. About two weeks ago, the Committee received the Administration's legislative proposals for the SBA. The purpose of the hearing today is to examine these proposals, particularly in light of input we received from other SBA stakeholders.

I'm pleased the Administration included several provisions in their reauthorization package that would further improve SBA's response to catastrophic disasters. The SBA has done an excellent job already by approving a record \$6 billion of low interest disaster loans for over 86,200 Gulf State residents and business owners affected by Hurricanes Katrina, Rita and Wilma at a rate twice as fast as the nation's previous largest disaster, the Northridge Earthquake in 1994.

The overall approval rate for SBA's disaster loans in the Gulf region is 31 percent or 37 percent if you exclude withdrawn application, not 15 percent as alleged by the minority. This is up 16 percent from the last year. Why has this happened? SBA has hired and trained 4,250 employees to process disaster loan applications, doubled the size of their loan processing center, quadrupled the size of their call center, doubled access to the loan processing system, streamlined documentation for all business loans and simplified approvals and processes for business loans under \$100,000, expedited loan approvals with credit scoring, created a new system for tax verification with the IRS and launched the Disaster Loan Partners Initiative designed to increase the role of private sector financial institutions in recovery efforts.

The further reforms that the Administration seeks in the reauthorization include increasing the size of disaster loans, offer an economic injury disaster loans to nonprofits and provide more flexibility to allow business development centers to redeploy resources and staff to assist disaster victims. This will require legislative changes to the Small Business Act.

I'll also be working on initiatives to further improve and expand the reach of SBA's finance programs to serve more small businesses all with the context of a zero-loan subsidy rate and SBA's entrepreneurship programs as part of the SBA reauthorization process. I'll yield to Ms. Velaquez in just a second. But as with is our custom here and Mr. Barreto, if there is a question as to which you would feel having a high level member of your staff answer the

question directly, that person could just scoot up to the table, introduce himself or herself for the record and answer that question. That's within your prerogative.

[Chairman Manzullo's opening statement may be found in the appendix.]

Mr. BARRETO. Thank you, Mr. Chairman.

Chairman MANZULLO. Okay. Ms. Velazquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. Over the past five years, SBA's budget has been cut nearly in half. Clearly, there are many areas of the Agency's budget we could delve into today. But at this point in time, with thousands of Gulf Coast small businesses desperately in need of SBA assistance, the SBA's Disaster Loan Program needs the immediate attention of Congress.

Hurricane Katrina has been very telling of what the SBA has become. There is no doubt that Hurricane Katrina was one of the most massive disasters to ever touch down in the United States and there was no way for the individuals that reside in the Gulf Coast region to avoid its path.

But what could have been mitigated? What we do have control over is the response. SBA's lack of planning and foresight in this disaster response shows that something has gone terribly wrong in this agency's ability to assist small businesses. The fact that they implemented a brand new loan processing system at the height of the hurricane season is indicative of the Agency's foresight for dealing with disasters. To compound the difficulties, the Agency drastically reduced their disaster employees as part of a work force transformation to only have to turn around at the last minute and rehire a brand new group of workers.

The worst part is that this Agency does not seem to have learned from its mistakes. SBA has been through two massive disasters over the past five years. Yet they have no plan of action and they have done nothing to show that they have taken steps to avoid this type of mistakes in the future.

Instead, the Agency has chosen to make decisions on a whim. From their Go-Along Program which was supposed to make millions in loans, but they have only administered 150 loans, these are not solutions. Steps like these do not put loans into the hands of those that needs most right now. Today nearly seven months after Hurricane Katrina touched down, 65 percent of the loans have been declined, less than ten percent of approvals have been paid out and individuals are still saying that they are having to wait over three months just to hear back from SBA. Rather than addressing these downfalls, SBA has instead managed to throw out a myriad of reasons for all of this. But the bottom line here is that the approval rates should not be declining at such massive rates.

We are releasing today a report that shows for the last five years approval rates have been historically lower for the disaster loans when compared to previous administration. Where averages used to be around 60 percent during the George H. W. Bush and Clinton Administrations, they are now only around 35. These declining approval rates are a result of change in priorities. The goal used to be to make this loan wholeheartedly, but now it seems the goal is to make these loan on the cheek.

We're going to hear from a real woman business owner from the Gulf Coast region today, one woman that is representing thousands of stories just like hers. I also want to share this video of Patrick Kimber (PH) from the Gulf Coast as yet another example of the hardships facing individuals in accessing disaster assistance through SBA. It is clear that something is not working here and it is about time we have some leadership that will get the job done and enable the Gulf Coast to make a full recovery.

[Ranking Member Velazquez's opening statement may be found in the appendix.]

Chairman MANZULLO. Before you start that, could you pause that just a second please? It's very usual to have a video tape as part of a person's opening statement because the opening statement is to include the words of the person making the opening statement, but I'm doing that to accommodate the minority and I understand this tape is less than a minute. Is that correct?

Ms. VELAZQUEZ. That's correct.

Chairman MANZULLO. And I also would ask if you would be willing to have this person who testifies sign a privacy waiver so the SBA can conduct its own investigation.

Ms. VELAZQUEZ. Absolutely.

Chairman MANZULLO. And also as to the witness, your minority witness, we were just advised of that person a few hours ago, would you be willing to have that person also sign a Privacy Act waiver?

Ms. VELAZQUEZ. We'll get that to you, Mr. Chairman, on that.

Chairman MANZULLO. It's important because we just had notice. It's usually 48 hours notice given to a witness and the reason for that is so that—you're willing to sign that?

Ms. VELAZQUEZ. She's willing to sign that, Mr. Chair.

Chairman MANZULLO. Would somebody from our staff take it to the witness and have her sign the Privacy Act? Okay. Is that the wrong one? Just a second.

Ms. VELAZQUEZ. Can we play the video?

Chairman MANZULLO. Go ahead.

WITNESS. The biggest frustration with the SBA now is that is seems like they are only giving it to what I would call the top ten percent, all these people that already had one and it's a government program. Why aren't they helping the little people as much as they're helping all of the big wigs. I pay my taxes too. I work hard. I don't default on any of my loans at all. I pay my house on time. I had two brand new cars, paid them off before they're ever due. I've had loans even after the hurricane that I've paid off already.

The money that I have received to work on my house from my insurance company I'm going to pay my mortgage company so I don't default on my loan. People like me who's 26 years old, have three kids and a wife, I'm just trying to live the American dream and I do everything like everybody else. Why not me?

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Chairman MANZULLO. Could I have the name of the person who made the tape for the record?

Ms. VELAZQUEZ. Mr. Chair, I could provide it. Sure.

Chairman MANZULLO. Could your staff get it and provide it within the next half hour or so?

Ms. VELAZQUEZ. Mr. Chairman, you can get it at the House Recording Studio.

Chairman MANZULLO. Wait a second. You're the one that asked to have this tape shown. As a matter of record, whoever testifies or gives testimony before this Committee, I want to know who they are.

Ms. VELAZQUEZ. The House Recording Studio, Mr. Chairman.

Chairman MANZULLO. Do you know the name of this person?

Ms. VELAZQUEZ. I could give it. Yes, sure.

Chairman MANZULLO. Why don't you give it for the record?

Ms. VELAZQUEZ. I don't have it now, Mr. Chairman.

Chairman MANZULLO. Does anybody on your staff know who it is?

Ms. VELAZQUEZ. I would be more than happy to submit it to you. I don't have it now.

Chairman MANZULLO. Would you do that before the hearing ends?

Ms. VELAZQUEZ. Sure, Mr. Chairman.

[Ms. Velazquez didn't provide the name of the person who made the tape for the record.]

Chairman MANZULLO. All right. Thank you. Proceed please.

STATEMENT OF THE HONORABLE HECTOR BARRETO, U.S. SMALL BUSINESS ADMINISTRATION

Mr. BARRETO. Thank you, Chairman Manzullo. Ranking member Velazquez. Distinguished members of the Committee. Thank you for inviting me here today to discuss the President's Budget Request for the U.S. Small Business Administration and related legislative issues. Since 2001, the SBA has been on a mission to deliver more services to the nation's small businesses as efficiently and effectively as possible. We are very proud of SBA's success in that quest and the Fiscal Year 2007 Budget reflects the continuation of this goal.

Lending is at an all-time high. More clients than ever are being served by our Entrepreneurial Development Programs and we're improving methods to assist small businesses gain fair access to government contracting opportunities. A number of different initiatives have been implemented to further that goal.

We realize that any time that you strive to be more results driven as President Bush has directed us, there are going to be challenges. Nonetheless, we remain keenly focused on our efforts to serve the needs of America's small businesses by restructuring key Agency operations and reengineering the Agency's largest loan programs, the SBA has achieved record program growth while reducing its budget by 37 percent since Fiscal Year 2001.

The SBA has also improved the effectiveness of the taxpayers' dollars supporting small business development. With these improved efficiencies in 2007, SBA will be able to record record numbers of small business loans with a total budget request of \$624 million.

SBA lending has seen record-setting growth in small business lending in our Flagship Loan Programs. Since 2001, the number of

loans has more than doubled on 7A and 504 loans. In Fiscal Year 2005, we made nearly 98,000 small business loans in our two primary lending programs compared to only 42,000 in 2001. In Fiscal Year 2005, minorities received 31 percent and women received 17 percent of 7A and 504 dollars which we funded. The Fiscal Year 2007 request will support \$28 billion in financing to the U.S. small business community. This represents a 42 percent business lending increase over Fiscal Year 2005 through the 7A and 504 and SBIC Debenture Program.

In all of these programs, SBA will be able to continue to meet the growing demand for loans in Fiscal Year 2007 without fears of shutdowns or caps because all three programs will operate at zero subsidy. Zero subsidy is still the best policy for the long-term stability and growth of SBA's loan program and as you can see with our results over the last year, it has not impacted our lending.

In addition to better results, we've also increased efficiencies in lender oversight functions, loan processing and liquidating, saving the taxpayer millions of dollars. Further consolidations and efficiencies planned for Fiscal Year 2006 and 2007 will result in additional savings.

In keeping with these savings and efficiencies, the Administration is proposing an administrative fee for 7A and 504 and SBIC financings for loans over \$1 million. This fee will cover the cost of making these loans and will save the taxpayers \$7 million in Fiscal Year 2007.

On the Entrepreneurial Development side of our mission, we continue to focus on making our programs more effective and efficient as well. Key to this is a close collaboration with our resource partners, the Small Business Development Centers, SCORE, the Counselors to America's Small Business and Women's Business Centers.

With the help of these partners as well as through our extensive online resources, we provided training and counseling to over 1.1 million clients. To reach new clients, SBA is encouraging our partners to utilize online development and maximize the resources we provide them to increase capacity and outreach. We're certainly going to use technology at the SBA to the greatest extent possible to reach additional clients.

With respect to government contracting and business development, I can report that we now have 58 procurement center representatives, PCRs, assisting small business with federal procurement issues. SBA's Office of Government Contracting and Business Development has also instituted enhanced practices and technological improvements. These have provided many benefits and increased efficiencies concerning government contracting opportunities and monitoring.

Strives have been made to maximize staff resources and monitor contracting activities as well as to improve communication and interaction with the small business community through the automation of many basic systems. SBA's focus in Fiscal Year 2007 as it has been since I became Administrator and also part of the President's small business agenda will continue to be to work to increase small business participation and competition in the federal procurement arena.

I would also like to speak about our disaster response. To date, we have received an unparalleled 389,000 disaster loan applications from homeowners, from renters and businesses. This is nine times more than we received for Hurricane Andrew. More than \$6.1 billion in disaster loans have been approved to more 87,000 victims. In the last two and a half months, we've approved more than \$4 billion in disaster loans.

Let me put this in perspective. The SBA is already surpassed by more \$2 billion what was previously the largest response in history. That was the 1994 North Ridge earthquake in California. Following that disaster, it took one full year to process 250,000 applications which we received.

In this response to the 2005 Gulf Coast hurricanes, the SBA has processing more than 251,000 applications in half that time. Our response has been agency-wide from the thousands working in our Office of Disaster Assistance to the hundreds of staff in our district offices across the country who are helping to process loans. Ninety-seven percent of the economic injury disaster loans have been processed. More than 286,000 damaged properties have already been inspected. That's 95 percent of all of the total inspections.

We're now focusing our efforts on loan closing and disbursements so that we can put money in the victims' hands and they can start rebuilding. We've already made disbursements in more than 36 percent of the approved loans. I am proud of the hard work, the dedication, the compassion and urgency our staff is demonstrating. It's important to reiterate that we make disaster loans with lenient underwriting requirements. We do not provide grants. This is how the SBA Disaster Loan Program model has worked for more than 50 years.

With respect to the Fiscal Year 2007, we're proposing funding to support \$900 million for loans to homeowners and businesses struck by natural disaster. That estimate is based on the five year average. The Fiscal Year 2007 Budget proposes to continue providing preferential loan terms to victims of disasters.

However, in order to contain escalating costs of these loans, the budget proposes to adopt a graduated interest rate for the Disaster Loan Program. Without such an action, the subsidy costs of disaster loans will increase to over 20 percent over this year's rate.

During the first five years after a disaster, interest rates will remain deeply subsidized as they are currently structured, although the interest rate caps would be eliminated. Thereafter, rates would revert to a rate reflected of comparable Treasury instruments determined on the approval date of the loan still below market rate. This structure would continue to provide borrowers with deep interest subsidy when they need them the most, immediately after a disaster. And after five years, the subsidies would be reduced for the remainder of the loan term.

The SBA operates like the businesses it helps to succeed by continually meeting challenges and evaluating cost effectiveness. The SBA has succeeded in achieving record growth in its programs while at the same time reducing the overall budget request through focused, practical implementation of the President's Management Agenda, the PMA, and related initiatives.

To maintain these trends and to build on the Agency's achievements, the SBA budget reflects a commitment to improving management systems and processes, investing in new and upgraded infrastructure, improving the efficiency and skill level of our staff and continuing transformation of Agency operations. The Agency is committed to continuing our mission and legacy to develop more services efficiently to the nation's small businesses. The SBA's 2007 Budget Request does just that.

Mr. Chairman, Members of the Committee, thank you again for the opportunity to meet with this Committee today. I would be happy to answer any questions.

[The Honorable Barreto's testimony may be found in the appendix.]

Chairman MANZULLO. Thank you. I have a series of questions and maybe I won't be able to have a chance to get them in during this round. First of all, thank you for coming. I appreciate it very much. Do you support allowing individual certified development companies to process or contract out loan liquidations?

Mr. BARRETO. Now you're talking about CDCs, processing disaster loans.

Chairman MANZULLO. No. Just 504s.

Mr. BARRETO. 504s, absolutely. Obviously, that's been the real strength to our program is the incredible work that our certified development companies do on that program.

Chairman MANZULLO. Do you support a higher \$3 million maximum loan amount in the 7A Program?

Mr. BARRETO. That is something that we're taking a look at right now and analyzing. It's something that we've discussed before. The only thing that we want to understand a little bit more because as you know the implications of the program are constantly changing. So we're looking at it right now to see how many people could benefit from larger loans of that level and we're very glad to continue working with NATCO on that proposal.

Chairman MANZULLO. Appreciate that. With regard to the disaster that occurred along the Gulf Coast, the equivalent of that is a series of side-by-side tornados 100 miles deep running from Boston to Chicago. Most of us have no idea as to the enormity of the damage that was done down there. In this particular disaster, FEMA referred a lot more people to SBA than before and many think that that's one of the reasons for the high denial rate because my understanding is that SBA became a gatekeeper not only as to its own programs but also as to the FEMA grant programs. Would you want to comment on that?

Mr. BARRETO. Yes sir. Thank you, Mr. Chairman. We've gone back and we've reviewed this. Obviously, we've received millions of referrals from FEMA on this disaster. I want to say that we've sent out close to three million applications, fielded well in excess of two million requests for loans, have received almost 400,000 loans.

When we went back and we looked at this in previous disasters, it used to be that FEMA would refer to us somewhere around 35 to 40 percent of the people that were inquiring for assistance. In this disaster, it's been closer to 85 percent of the individuals that have originally registered with FEMA that have referred to the SBA. So that by itself created a tremendous, a huge volume.

But one other thing that we've talked about before and sometimes I think people forget this is that many of the individuals that apply for SBA are not looking for a loan. They're actually looking for a grant. But the way that the federal disaster model is structured right now, SBA must make every attempt to determine whether that individual could qualify for any kind of a loan. So far, FEMA has done more than 1.7 million grants and the total amount of those grants now totals close to \$7 billion in grants.

Chairman MANZULLO. And those applications when people applied to you and were rejected by the SBA, then they qualified for FEMA grants. Is that correct?

Mr. BARRETO. Yes, if they're a homeowner they go back to FEMA for the grant.

Chairman MANZULLO. Do you have any idea how many of those people applied to SBA and then were rejected?

Mr. BARRETO. I can get you the exact number, but the majority of them would have because FEMA has referred most of the individuals to the SBA and as I mentioned, FEMA has communicated to us that they've done 1.7 million.

Chairman MANZULLO. So the fact that SBA rejected these people does not mean that these people did not receive any help. Is that correct?

Mr. BARRETO. That is absolutely correct.

Chairman MANZULLO. Okay. Thank you. Excuse me. And the help they received would have been up to \$26,000 from FEMA.

Mr. BARRETO. \$26,200 is the maximum amount.

Chairman MANZULLO. So when you rejected them for a loan, many or most of them actually got a grant of \$26,200.

Mr. BARRETO. That is correct.

Chairman MANZULLO. Thank you. And as to those people that got the grant, Mr. Barreto, a lot of times it's because they simply couldn't qualify for a loan based on their credit history.

Mr. BARRETO. That's what would have happened because of credit history, no ability to be able to repay the loan. For a variety of other reasons, they would not qualify for an SBA loan. We make every attempt. We have very lenient underwriting and by the way, the credit underwriting that we do for disaster loans has not changed. It's not more difficult in this disaster than it has been in other disasters. We're very lenient as it is.

Chairman MANZULLO. All right. Thank you. And this is the last question.

Ms. VELAZQUEZ. Mr. Barreto, regarding the Gulf Coast disasters, can you please evaluate your performance today? What grade would you give yourself as the Administrator of SBA for handling this situation?

Mr. BARRETO. I'm not sure that I understand the question in terms of a grade. I can tell you that we've done more than \$2 billion in loans above the biggest disaster in history and \$6.1 billion in -

Ms. VELAZQUEZ. Let me tell you why I ask this. I ask this because the SBA implemented a new disaster processing system in the heart of the 2000 hurricane season. The SBA paid for disaster processing capacity that it did not receive. The SBA did not realize it had nearly run out of money to make disaster loans until days

before. The SBA centralized without a sufficient backup plan disaster problem processing in Fort Worth which nearly was devastated by Hurricane Rita. The SBA had insufficient workforce plans which then led SBA to ask banks to volunteer their employees and now has SBA trying to get banks themselves to process loans through convoluted and inefficient methods. So based on all of this, Mr. Barreto, are you satisfied with your performance?

Mr. BARRETO. Well, one of the things I think that you said in your opening comments, Congresswoman, is that this is the largest disaster in U.S. history. There's no doubt. Usually the SBA processes about 100,000 loans for every disaster that we deal with and the SBA on a year to year basis may have as many as—

Ms. VELAZQUEZ. Mr. Barreto, I don't have much time.

Chairman MANZULLO. I'm going to—

Ms. VELAZQUEZ. Mr. Chairman, this is my time.

Chairman MANZULLO. I understand that. I might give an extra minute or so. But you asked a question and the witness is entitled to answer the question.

Ms. VELAZQUEZ. And I want to clarify what exactly it is that I want. I want to yes or no answer. Are you satisfied?

Mr. BARRETO. Well, I'm very satisfied with the response—

Ms. VELAZQUEZ. Thank you.

Mr. BARRETO. -of the Office of Disaster Assistance. I think they've done an incredible job during very difficult and trying times.

Ms. VELAZQUEZ. You have been through two major hurricanes in the last year which went well beyond the plans you have more typical disasters. In this hand, I have a 40 pages press plan to deal with negative publicity about SBA's response to the hurricanes. This is from your agency. Why don't you have a plan to deal with infrastructure, networking and staff issues related to this type of a typical super disaster?

Mr. BARRETO. Well, we do have plans to deal with disasters as I mentioned. We respond to about 50 disasters every year. A lot of times people forget that anytime that there's a flood or a fire or an earthquake or any of those things we're responding to multiple disasters at any given time.

The thing that we don't have, Congressman Velazquez, is we don't have thousands of people sitting in offices across the country waiting for the big one. It just would be not feasible for us to be able to do that. So the way that the SBA works is that we have an Office of Disaster Assistance that has a cadre of permanent employees and before the hurricanes, there was less than 900 employees in that disaster operation which was sufficient to respond to the disasters that we have on a year-to-year basis. As you mentioned I believe, that since that time we've had to ramp up capacity. We've hired more than 4,000 employees that are currently working on responding to the biggest disaster in U.S. history.

Ms. VELAZQUEZ. Thank you, Mr. Barreto. I have seen what SBA is calling a surge plan and it's not a surge plan. It is simply a guide for responding to run-of-the-mill disasters. It does not address what the Agency will need to do to respond to large scale disasters. It contains no detail for integration or implementation and it is a complete mystery for how it will work.

I've been looking at SBA disaster plans and I have lots of questions about them. Why doesn't this so-called surge plan contain contingent arrangements with IT vendors for additional telecommunications capacity? Why doesn't it contain vendor arrangements to secure additional land capacity? Why doesn't the plan contain contingent arrangements for additional commercial real estate in Fort Worth and Sacramento? Why doesn't it contain detailed plans for how to hire additional staff? Why doesn't it provide instruction for specific training for search related staff? You know what the General Accounting Office said. That is not a plan.

Mr. BARRETO. Well again, we for fifty years have responded to every disaster in U.S. history. We responded to 9/11 and I had opportunity to work very closely with you on that response. But the truth of the matter is that there has never been a disaster of this scope and for an agency the size of SBA with less than 900 employees to be able to predict when the next big one is going to be, what part of the country, what kinds of relationships we have, is somewhat challenging.

I'd be happy to provide you with the plans that we do have. I want to make sure that you have all those and also I'd like to let you know that after this disaster we learned that we need to have a plan for the next big one. In other words, it's not a question if something like this could happen again. It will happen again and we have to prepare for it.

Ms. VELAZQUEZ. But, Mr. Barreto, a search plan-

Chairman MANZULLO. The gentle lady's time has expired.

Ms. VELAZQUEZ. You said you would give me an extra minute.

Chairman MANZULLO. That's correct.

Ms. VELAZQUEZ. Can I finish my question?

Chairman MANZULLO. You already have been given extra minutes but go ahead. That's fine.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. A surge plan doesn't mean a chart that will tell your staff how many staff it will take to make a loan and that is all you have in your surge plan.

Mr. BARRETO. And again, one of the things that we need to do is we need to do a combination of things. As you probably know, we sent out a request for information because we want to work closer with the private sector. And by the way, one of the parts of the story that's not told is we've done about \$1.5 billion in disaster loans for businesses, but we've also done about \$250 million in business loans through our banks.

So we do have a relationship with the private sector working on a number of different fronts. But now what we're looking at is in the future whenever you have this kind of volume, basically what is five or six years worth of work in a few months, one of the things that we're also going to have to do is not just do this internally, but we're also going to need to look for ways that we can work with the private sector. And again, we have to be very flexible because we don't know where the next disaster is going to occur.

Chairman MANZULLO. Mr. McCotter.

Mr. MCCOTTER. Thank you, Mr. Chairman. Can you follow up on that coordination with the private sector?

Mr. BARRETO. Sure.

Mr. McCOTTER. Because in many ways the response to Katrina, the aftermath, was much better by the private sector than by the government and I would be curious as to what you're talking about and what specifically.

Mr. BARRETO. I'm talking about the work that we do every day with the private sector. One of the things that we realized is, and by the way, let me take a step back. I think there's often times some confusion about what kind of loans the SBA can do. The SBA has only one type of disaster loan. It is a long-term, rebuilding and reconstruction loan for physical damage to residences and physical damages to businesses.

That's the only kind of disaster loan the SBA can provide and what we know is there's a lot of folks out there that that's not going to be enough. They're going to maybe need a smaller loan. They're going to need something that is more of a short-term cash infusion. They may need loans to buy equipment, etc. And that's really where we engage the private sector.

I mentioned to you that we've already done approximately a quarter of a billion dollars in additional loans through our lenders, in other words, lenders working with us to approve small businesses in the Gulf area. If you put that \$250 million with the \$1.5 billion, you're getting pretty close to \$2 billion so far that we've been able to do for small businesses.

The other thing I want to remind folks is that more than 90 percent of the applicants are not small businesses. That's one of the things that makes this disaster very, very different. Usually you have a ratio of two or three to one which would be normal. The ratio here is nine to one homeowners to small businesses.

Mr. McCOTTER. You also mentioned grants. Would you please explain the difference between a small business loan and a grant?

Mr. BARRETO. Sure. Small business loans must be paid back. Grants do not need to be paid back. SBA has no authority to do grants. We must underwrite loans and ensure that there is some opportunity for that loan to be paid back. That is something that our Oversight Committee also expects us to do is to be good shepherds of the taxpayer's money and we're endeavoring to do that.

There is a balance though. We must do everything that we can to help the victims and as I mentioned, we've done \$6 billion in loans so far. But we also have to ensure that there's some opportunity that that loan may be paid back.

Mr. McCOTTER. How quickly are you able to turn around? Say someone believes that they file for a small business loan, but they're in turn actually more eligible for a grant which does not have to be repaid. How quickly does that happen?

Mr. BARRETO. What happens is that it's going to be one or the other. In other words-

Mr. McCOTTER. The determination, how quickly is the determination?

Mr. BARRETO. Right now, it's running a little over sixty days. We'd like it to be half that much and by the way, I want to state for the record that we have processed 95 percent of the loans to businesses which are referred to as economic injury loans. We've processed almost 90 percent of the physical damage awards to small businesses and we've processed over 70 percent of the home-

owner loans. By the way, one of the key indicators is also inspections. We've done 95 percent of the inspections of all the properties that we need to inspect.

Mr. MCCOTTER. I appreciate the statistical recounting of that. My question is that one of the problems, the concerns, that the people have is given the size of the disaster is that there are many people who are unable to receive help for the circumstances in which they find themselves, circumstances which in many ways were exacerbated by human failings both in the inception of the disaster and its aftermath and then the effort to recover much of the livable state the people had. My question is how many people are out there trying to get help either through a small business loan or through a grant that have to be processed.

Mr. BARRETO. Well, we've processed close to 300,000 of the applications and we receive applications every single day. In fact, I think you may be aware that the deadline-

Mr. MCCOTTER. Can you give me an estimate of the number of people who are out there that are still trying to receive help? I think that was the point of Mr. X's video.

Mr. BARRETO. I would be glad to do that, to tell you. We have something approximating 8,000 applications that are still in some form of processing for small businesses. That represents approximately ten percent of what we received.

Mr. MCCOTTER. And if these people do not receive satisfaction of a small business loan or are not eligible for that, are they then directed where they can go get grant money?

Mr. BARRETO. No. The only folks that are eligible for grant money would be homeowners, if those individuals have homes and they're not eligible for, that there is no other remedy for a small business person through our program, if they do not qualify for the disaster loan.

Mr. MCCOTTER. But they can be directed elsewhere. I would think it would speed the process when you talk about a recovery plan to clearly delineate between what is a grant, what is a small business loan, so the people who are not eligible for your loans can still go get the assistance they need somewhere else and relieve the burden upon your administration.

Mr. BARRETO. I'm not sure I completely understand it. If they're a homeowner that are going through our process, they have to be turned down by us before they can qualify for a grant from the Federal Government.

Mr. MCCOTTER. My point would be, and I know my time is up, is to make sure that if they're ineligible is that these poor people don't spend their time trying to get something they're not entitled to, but are instead directed to the proper place in the first place. That's all.

Mr. BARRETO. Understand.

Chairman MANZULLO. They would be directed to FEMA.

Mr. BARRETO. If they're a homeowner. If they're a small business, we have to underwrite them to determine if they're eligible for a loan.

Mr. MCCOTTER. Okay.

Chairman MANZULLO. Dr. Christensen.

Dr. CHRISTENSEN. Thank you, Mr. Chairman. I'm really glad that we're having this hearing. I thank you and the Ranking Member for it. Welcome, Administrator Barreto.

Mr. BARRETO. Thank you.

Dr. CHRISTENSEN. I've been to New Orleans several times. I've met with your disaster staff by phone and I hear your testimony, but the slow processing and the record low approval rates, low and slow disbursement even after approval, it's the same slow response that is represented by the entire response of the Federal Government in the face of what everyone agrees is the worse disaster this country's experienced. And it has been and remains an emergency and I'm extremely disturbed that people and businesses are continuing to be left to languish even though it's seven months later. And there is so much rebuilding to be done.

I'm particularly concerned as you would imagine by the lack of responsiveness to the health care sector. And that's what my meeting was about. It seems like all other businesses are being treated like business is usual and in the face of such a catastrophe, I would think that the government would respond appropriately accordingly to the amount of disaster that's there, not business as usual which is what I'm seeing.

How many health related businesses have you approved economic injury loans for? I'll tell you that I applied twice and didn't get it.

Mr. BARRETO. I can tell you, and I would be happy to go back and research exactly the number, but we have approved 2,388 applications for economic injury disaster loans. That represents 95 percent of all of the applications that we received that we've already processed.

Dr. CHRISTENSEN. Let me just ask you also. Does SBA see restoring the health infrastructure in the Gulf region as being a priority and is there any coordination between the SBA and Department of Health and Human Services or any other agency to meet this priority need in the area?

I'm going to tell you what I heard from SBA and every other agency as we've been trying to address is people are not coming back, that kind of an attitude, and I was definitely not satisfied.

Mr. BARRETO. People not coming back to the Gulf, New Orleans?

Dr. CHRISTENSEN. Yes.

Mr. BARRETO. Well, there's no doubt about it.

Dr. CHRISTENSEN. People are back. They are seeking health care in almost pre-Katrina numbers.

Mr. BARRETO. Right. Our understanding is, and I've been down there five times and in constant contact with our folks, something in the order of 60 percent plus of the individuals that lived there before are not there right now and that's something that's also affecting a lot of the small businesses about whether or not they can come back. Can they get employees? Will there be customers? What are the conditions on the ground for them?

Dr. CHRISTENSEN. But the question was given the enormity of the disaster and its devastating impact on health care and affecting private providers as well, has SBA worked with the Department of Health and Human Services or any other agency to address this dire need in the area?

Mr. BARRETO. Well, we're in regular communication with them. It's kind of coincidental, but I have two meetings scheduled with senior people in HHS next week at their offices to discuss this issue and we're in regular communication with them. I know that they're putting a lot of focus on it and one of the individuals is the Surgeon General of the United States who has been down there and is working on a number of different initiatives. So we're looking at ways that we can do that.

I don't know how many, and I'll find out for you, people in the health care industry have applied for economic injury assistance, but we've received very few over all applications so far. We've received very few.

Dr. CHRISTENSEN. Or any kind of loan to help them restart their business, I would appreciate the data.

Mr. BARRETO. Sure.

Dr. CHRISTENSEN. You know I'm one of the districts that loans were sold and you know the problems we've had and I want to know if after the people who are so devastated received the loan, can they expect that SBA is going to continue to hold those loans or are they going to be sold and have you learned from any of the past experience on how to do that better?

Mr. BARRETO. We've learned a lot and I appreciate the opportunity to have worked with you on some of these issues. As you know we've had a moratorium on selling any loans for a couple of years now and we have-

Dr. CHRISTENSEN. Yes, that's because my Chairman and Ranking Member have supported me on that.

Mr. BARRETO. And we have no plans on selling any loans. No plans.

Dr. CHRISTENSEN. Thank you.

Chairman MANZULLO. Mr. Bradley.

Mr. BRADLEY. Good afternoon, Mr. Chairman. Mr. Barreto, good to see you.

Mr. BARRETO. Good to see you.

Mr. BRADLEY. I apologize for being detained before I could get here. The subcommittee that I chair on Taxes, Finance and Export held a hearing last week on looking at SBA finances and the Ranking Member participated and Congresswoman Millender-McDonald. So I certainly appreciate that.

I'd like to focus in for a moment on the 7(a) loan program. I have to admit, Mr. Chairman, I supported you in my first year in Congress in voting to continue the 7(a) subsidy and then continued to support that in my second year and now according to the testimony of your witnesses last week as well as some of the other panel members, I think it was a split view on the effectiveness or the necessity if you will for the subsidy for the 7(a) loans.

And so you're here and I certainly would like to get you impression. I'm pretty sure I know what it's going to be and why. But if you could illuminate a little bit on what your prepared remarks were on why you don't feel it is necessary and why we can do without it.

Mr. BARRETO. Well, let me approach that question in two different ways. One of them is that some of the concern before we had zero subsidy was that lenders were going to leave the program, the

average loan size would go back up, minorities would get no loans and just a complete erosion of what we'd accomplished over the couple years before that.

Now we didn't believe that that would happen and since last year when we were testifying on this, now we have the facts to prove it. Last year was the all-time high for loans at the SBA in its 53 year history. We did close to 100,000 loans. That's double what we were doing four years ago. We guaranteed almost \$20 billion worth of capital for small businesses. That's more than twice of what we were doing four and a half years.

And one of the things that we knew because our lenders were telling us this and our small businesses were telling us this is they said "Look. The most important thing for us with the 7(a) program is for it to be continuous, for there not to be starts and stops. We don't want to hear that you don't have your budget approved by the beginning of your fiscal year and that you're feeling pressure on the loan program and that you're going to have to put a cap on the loan program and if you really run tight, you may even have to close it down."

Lenders were very, very concerned about this. They said to us, "Look. You got us excited about doing loans to small businesses through your program and now we dedicate a lot of resources to small business lenders, millions of dollars, a lot of personnel. So we can't afford for you to put a cap on the loan for one day and we certainly can't afford for you to close down the loan program for one day."

So now that there is continuity, consistency. Now that there is more stability in the program, not only have we not lost lenders. We have new lenders that have come on board. So we're very optimistic about our prospects. We believe that this is going to be another banner year. So we're able to do both those things, meet the needs of small businesses and save the American tax payer close to \$100 million in appropriation that is not necessary to be able to support that program.

Mr. BRADLEY. Perhaps you could illuminate for me at least or other members of the Committee why with the 7(a) subsidy is it that it creates the stops and starts that you were talking about because I remember in 2003 I called you directly because I had a constituent that was trying to close on a loan and buy a business that he had a purchase and sale on and it was capped. Why is it that subsidy leads to a capping?

Mr. BARRETO. Well, I think probably a better reason for that has to do with the fact that if the beginning of the fiscal year we don't have our budget approved which we never have since I've been here, then we're operating on a continuing resolution and that continuing resolution is basically an estimate, not an estimate, but it is an amount similar to what happened in the year before.

When your loan program is growing as fast as our program is growing, I mean our program was up 30 percent last year, the 504 loan program is up 30 percent this year, it puts a tremendous amount of pressure. I know of liken it to a small business owner who you would say to them, "Look. You need to run your business and you need to write checks. But I'm not going to tell you what you have in your bank account" and a small business owner would

say "That's impossible." And I would say, "Sometimes that's kind of the way we had to run the SBA 7(a) loan program in past."

So now that we do not have a subsidy, that's not an issue for us anymore. That program is self-sufficient. The lending authorities, the critical aspect, this budget that we submit for 2007 has \$28 billion in lending authority. For a lot of small businesses and lender, that is really the bottom line.

Chairman MANZULLO. Thank you, Ms. Bordallo.

Ms. BORDALLO. Thank you, Mr. Chairman and Ranking Member, I want to thank you for holding this important meeting on SBA's disaster loan programs and disaster response and welcome, Mr. Barreto. The response to the hurricanes not only by SBA but other Federal departments certainly everybody will agree in this room remains a source of ongoing significant concern. I represent the territory of Guam. The people of Guam are no strangers to natural disasters, Mr. Barreto. We are in Typhoon Alley. We have super typhoons, in one instance, six months apart with 200 an hour mile winds. So we certainly know how to deal with these typhoons and this is why the Government of Guam, the military on the island, all government agencies and SBA meet quarterly to discuss disasters.

So it is my question to you, planning is everything and without it, any response effort is certainly doomed to fail. So I would like to know. Can you comment on whether the SBA would implement a program aimed to coordinate with local governments, chambers of commerce, your SBA office, to discuss disaster program response and could you conduct it or would you be able to conduct it in a regular basis?

We wouldn't be caught like we were and this is why Guam is so successful. We don't have debts. Our homes are built strong to withstand these winds and I'm just wondering if somehow you could get the word out. Your people would be ready. Everyone would be ready when these disasters come about.

Mr. BARRETO. I think it's an excellent recommendation and I mentioned before that we're in the process right now of putting together a comprehensive plan for another large scale event. Not to belabor the point, but it's just that never anything like this has ever happened before and that's not an excuse. It's just what happened.

And I mentioned before that for us to be able to respond to a disaster immediately, we literally would have to have assets deployed all over this country and in Guam and other places ready for that disaster. Now we don't have those type of resources. The way that the SBA works, we have a small cadre of disaster employees, before this last disaster, less than 900 employees. We have 4,500 employees now working in the disaster operation.

Now what will happen after we finish responding to this disaster if there's not another one right after it and we don't know when the next one will be, but we now have thousands of individuals who are going to be part of our network. We have like our own reserve corps and whenever there's a disaster, we bring up experienced people that have worked with us before that know our program. One of the benefits, if you want to call it a benefit, is the fact that

we have now identified thousands of people. We've trained them. We've equipped them and they will be part of our reserve corps.

Now I totally agree with you with regards to the communication because a lot of times people are not clear. If you've never gone through a disaster, you have a lot of experience with this, but if you've never gone through a disaster, never filled out an SBA disaster application, you could be lost. You may not understand what's going on. You're almost in a state of shock. I mean we saw small business people in a state of shock months afterwards.

So what I would like to explore is utilizing our network of SBA district personnel across the country and for that matter in Guam and other places to assist us in communicating that and to be in relationship. It's one of those things that they always talk about. You need to develop a relationship before you need that relationship and I think that that is very important and I would like to work with you on that and to include that kind of ongoing interaction with the assets that we do have every single day, working with the local folks that are responsible for disasters.

Ms. BORDALLO. Thank you, Mr. Barreto, and I hope you will be able to implement it. And if I have any time left, Mr. Chairman, I would like to yield it back to the Ranking Member.

Chairman MANZULLO. You have 39 seconds left.

Ms. VELAZQUEZ. She's yielding to me?

Ms. BORDALLO. Yes, I did.

Ms. VELAZQUEZ. Oh okay. Thank you. Mr. Barreto, the SBA recently went through a work force transformation where it reassigned as well as eliminated employees. As a core Federal disaster response agency, why didn't you take this opportunity to create a full-time disaster planner within the SBA?

Mr. BARRETO. I'm not sure I understand the question. When you say "disaster planner," what are you specifically referring to would be the responsibilities?

Ms. VELAZQUEZ. Someone to put together a plan that will respond to the disaster.

Mr. BARRETO. Well, the person that would be responsible for that is the Director of the Office of Disaster Assistance.

Ms. VELAZQUEZ. Is he a planner?

Mr. BARRETO. He has 30 years worth of experience dealing with every disaster.

Ms. VELAZQUEZ. But isn't he the person in charge of the disaster loan program?

Mr. BARRETO. Well, he's responsible for all aspects of disaster response. Everybody that works in disaster reports up to him and I will tell you. We're fortunate to have him because he's somebody as I said with 30 years experience working at the SBA, working in the disaster operations. So there is not a disaster that he doesn't have experience with and understand.

Chairman MANZULLO. The gentle lady's time has expired. Mrs. Moore.

Ms. MOORE. Thank you, Mr. Chairman. It's always good to be here with you and thank you, Mr. Barreto, for appearing today. When I walked in the door, you were bragging and talking about how proud you were of the 97 percent loans that were processed and then it went down to 95. But all that being said, I guess I'm

curious about what processing these loans means. Since I voted for all this disaster money, you've only disbursed about \$440 million.

Sixty percent of the businesses down, affected, by Katrina have had to close their doors forever. And I just want to know what's the major reason. Like this processing, it's almost seems like they go to the circular file. I think I'm going to process some of the junk in my house like that, just throw it away. Is that credit score or lack of ability to pay or what would be the reasons? You're bragging about processing them, but the fact is that these businesses, we're not helping to regenerate businesses in the area by merely processing them into the circular file.

Mr. BARRETO. Okay. There are a number of different points to that question I would like to address for you. Please know that we're not bragging. I'm not bragging. We're not done yet with the response and until we finish with the response, we will not be satisfied. I'm simply letting you know what the current production rates have been and remember that we do three different kinds of loans.

Actually, I think you could say we do the economic injury disaster loans and that's the one that had approximately 90 percent processed. We do physical damages to small businesses and there we've processed about 90 percent of the applications. We do homeowners that have had physical damage. There we processed about 70 percent of the applicants. We do personal property loans for people that don't own a home or a business. We can do those loans up to \$40,000.

Also remember that the percentage is constantly changing because we're always getting more disaster applications in. And in fact, the disaster deadline has been extended now for another month.

Ms. MOORE. Thank you, Mr. Barreto. I think you've clarified the point because when I came in, you were talking about how proud you were and it just didn't fit with the pictures that I see. I'm from Milwaukee, Wisconsin. Thank you. The UEP is going to be the sixth city.

I'm wondering since you say that this is such a wonderful funding strategy. To zero fund, all the programs that would help minority businesses, the 7(a) loan program you were telling Mr. Bradley about that. The SBDC, the Women's Business Centers, these things have been flat funded, cut and I'm going to yield the balance of my time to the Ranking Member because I guess I just don't get it, how less money is going to help minority businesses. I do understand what you shared with us in terms of the funding cycle, but overall, I think more money would help since we've seen a steady decline of minority business lending and resources available to us in Milwaukee. How are you going to fund the UEP?

Mr. BARRETO. Sure. Well, great questions and I would love to talk to you about that. First of all, when I talk about the zero subsidy for 7(a), all we're saying is that those loans now are self-sufficient. They don't require additional money.

Ms. MOORE. We don't need-We need more money.

Mr. BARRETO. No, the lending authority is all time highs. What I'm proposing in this budget is \$28 billion in lending authority, \$28 billion and last year you probably might know this-

Ms. MOORE. I want to yield my time to her. So thank you for that.

Mr. BARRETO. But last year, we did almost 40 percent of those loans to minorities. So minorities are benefitting now more than ever before and then the UEP is a public/private partnership and the funding comes from several different sources. One of the key sources is the Kaufman Foundation who is a large underwriter of that program. We work very closely with Kaufman, with the Urban League and with other partners in that initiative.

Ms. MOORE. Okay. Now, Mr. Chairman, please don't take-Please. I wanted to yield it to the Ranking Member because I was satisfied with his answer.

Chairman MANZULLO. You can use your ten seconds plus we'll give her an extra couple of minutes.

Ms. MOORE. Okay.

Ms. VELAZQUEZ. Thank you. Mr. Barreto, we have heard that the decline rates associated with Hurricane Katrina are an anomaly, but that is not the case as we see in this chart. We have heard the excuse that it is due to computer system changes, but it is not. In fact, SBA's response to hurricanes since you have been in office has actually been very similar with nearly all hurricanes having an SBA loan approval rate of 50 percent. The big difference is that major hurricanes that occurred in previous administrations had much higher approval rates, often near 60 percent, Andrew 50 percent, Opal 58 percent, George 61 percent, Charley when you were there 47 percent, Frances 36 percent, Ivan 53, Jeanne 37, Katrina 37, Rita 15, Wilma 13 percent. Why is SBA under your administration approving loans as a percentage of applications, percentage, then previous administrations?

Mr. BARRETO. Well, first of all, I think it's important to do an apples-to-apples comparison. The approval rate is different in every disaster. I have some approval rates here for Allison and Frances which were 32 and 24 percent, respectively.

But one of the things that is also important to note is that a few months back, we were talking about an approval rate of about 14 percent and the reason again is because most of the folks that were applying for us ended up being grants, not loans. And by the way, many of those didn't want a loan. They would say to us "I don't want a loan, but I'm going to go through process so that you can turn me down and I can go back to FEMA and get a grant." That's why FEMA has done \$1.7 million grants for over \$7 billion.

Ms. VELAZQUEZ. So you're telling me that when George, Andrew and all those during George H. W. Administration and Clinton's Administration, they didn't apply for grants. They approved for home loans and disaster because the loan approval was 60 percent.

Mr. BARRETO. No, they definitely would prefer to grant. Most people would rather not pay the money back. They would definitely like a grant, but they weren't able to go get a grant because if we could do a loan for them, in other words, if they qualified for a loan, they have the option to go back for a grant.

And one of the things that you're seeing this disaster is that the income levels of the individuals, this has been said over and over again, some of the folks that were effected were in some of the lowest incomes area in the country. So they're not going to be able to

qualify for a loan immediately. We do everything that we can to approve them.

By the way, the approval rate since the very beginning now has more than doubled and we thought that was going to happen and it's going to continue to go up because a lot of the individuals that applied in the beginning who really didn't want loans and ended up getting grants, they're out of the system now. So most of the folks that we're looking at right have higher credit scores. They have higher repayment ability. They have much more means to be able to qualify for a loan.

Chairman MANZULLO. Thank you.

Ms. VELAZQUEZ. You know that is not what the data.

Mr. BARRETO. Well, it's not an apples-to-apples comparison and one last thing I want to make sure that you do understand is that in the past when we received applications-

Ms. VELAZQUEZ. It is a hurricane and another hurricane-

Chairman MANZULLO. Let the witness answer the question.

Mr. BARRETO. I will explain this, Ms. Velazquez. You may not be aware of this, but for all the disasters in the past what would happen is there was no system and so applications would come in, a lot less applications would come in. Somebody would look at the application and say "That's never going to become a loan " and that would never appear in the system. What we do now is everything that we receive goes into DCMS, everything, and that's one of the things that also skewing the percentage of approvals.

Chairman MANZULLO. Thank you, Mr. Barreto. Appreciate your being here. Ms. Smith, if you would like to take the stand. You're excused, Mr. Barreto. Thank you very much.

Mr. BARRETO. Thank you very much. I appreciate the opportunity to testify.

Chairman MANZULLO. Mr. Mitchell, you're going to stick around in case we need you. Thank you. Would somebody get Ms. Smith a glass of water there, a fresh glass? There you are. Ms. Smith, we welcome you to our Committee. The first thing I want you to do is take a sip of water and take a deep breath.

Ms. SMITH. How did you know?

Chairman MANZULLO. And then normally the time is five minutes. We could give a little bit more than that. I just want you to be relaxed and you're here to tell your story.

Ms. SMITH. Okay. Thank you.

Chairman MANZULLO. Please proceed. Thank you.

STATEMENT OF PATRICIA SMITH, PEMBA LIGHTING AND AUTOMATION

Ms. SMITH. I did try to get it down to five minutes though for you, actually less hopefully if I don't elaborate too much and to do that, I'll try to read it more.

Chairman Manzullo, Ranking Member Velazquez and Members of the House Small Business Committee, I am Patricia Smith. I am a co-owner of my business, along with my husband, of PEMBA Lighting and Automation in New Orleans, Louisiana. PEMBA is a small business with five to seven employees. We've been in business for eight years.

Before Katrina hit, our business was doing well. In fact, we were expanding. My husband and I were relying on PEMBA to be the family's primary source of income. The day that Hurricane Katrina hit our city, the livelihood of our business came to a sudden halt. The building was flooded. We had no electricity for a month. No phone or internet services for months. The city's whole economy stopped. It seemed as if our business was doomed.

Today I would like to share with you our experience in trying to get assistance from the SBA and recover our business after the disaster. But the truth is that my experience is not unique. You could bring in hundreds of small business owners from the Gulf Coast region and these ordeals would be echoed.

Within a few weeks after the hurricane, I placed calls and I visited the Disaster Recovery Center to meet with the SBA personnel. They strongly, they the SBA strongly, encouraged me to apply for both a personal and business loan. On September 19, 2005, I hand-delivered my complete SBA loan application including tax returns. I had questions about the process obviously and I was told that someone would contact me within three weeks and I could ask questions then.

While waiting to hear if our loan was approved, we continued to struggle with the mounting losses of our business. We could no longer pay salaries and had to let employees go. My husband had to get another job for us to be able to pay the bills. Work continued to come in, but with lack of staff, we were not able to handle the work load.

I waited over two months to hear the status of my loan application. In late November, I was told that the SBA did not have all of the information needed to file my request. They could not locate my tax returns. My heart sank.

About a week later, I received a phone call from another SBA employee telling me that he had all of my information and did not know why I was asked to refax the tax information. I did begin to wonder about the organization and thoroughness of the SBA loan process.

Again, about a week later, I received a request regarding the depreciation method used on our property in 2004. An SBA employee contacted me to tell me that we may not be able to get a loan since our property, the property that had been flooded, had been depreciated by 50 percent.

December 9th is when this sad reality sunk in. We were denied a loan for both our home and business. We had insufficient collateral and therefore, were denied any possibility of getting an SBA loan. This was devastating news and it did not seem appropriate criteria for a loan after such a natural disaster. Of course, we had problems with our assets. They were flooded. After hearing from friends and associates that everyone was being denied assistance from the SBA and that people were beginning to appeal those decisions, I went on a letter-writing campaign to get the SBA to consider my loan.

On February 16th, I faxed a letter of appeal to the SBA. I pointed out our creditworthiness, number of years in operation, company growth and that we were indeed responsible individuals who pay

our bills, things which you would expect to be important with a disaster loan.

On February 24th, I was able to confirm receipt of my appeal letter.

On March 3rd, I received a message to call the SBA. It took me two days to get through and leave a message for the person who called me. I received a call back later that day and was asked to send an updated profit and loss statement. Frustrated by how simple communications take enormous effort, I lectured that SBA employee. I was amazed how the delays affecting the livelihood of my small business did not seem to be important.

This process began for me and my husband on September 19, 2005. Time is critical in these situations and today nearly six months later, we're still waiting for assistance from the SBA. The fact of the matter is that there are thousands who have also been denied but they haven't gone on a letter writing campaign to get the agency's attention.

I am a registered Republican. So I'm not here to play politics. I don't care. I'm here to represent the needs of thousands of small business owners just like me in the Gulf Coast. We need assistance now and we need a champion for our interest. The SBA has not been that champion.

Instead throughout the ordeal, the Agency, while it has a lot of good people has been wasting my time. I can tell you from first-hand knowledge, the assistance they talk about is not reaching the people that need it.

Thank you very much for allowing me to appear before the Committee today and letting me share my story. At this time, I would greatly appreciate it if you would ask me questions. Feel free to challenge my story and allow me to respond by what is truly happening and providing suggestions about improving the process for small businesses like mine. Your Committee is the only hope for small businesses whether it be from the Katrina disaster or future ones. Thank you.

[Ms. Smith's testimony may be found in the appendix.]

Chairman MANZULLO. Thank you, Ms. Smith. Ms. Velazquez and I also belong to Financial Services Committee. So if you see us get up and leave, it's because we have some votes that are pending there. I'm going to try to get through some questions here. First of all, thank you for coming up from New Orleans. I appreciate it very much.

Besides the SBA, could you tell us what other agency or what other individuals you contacted?

Ms. SMITH. Right. Good question. Actually, I contacted a lot of people.

Chairman MANZULLO. Okay.

Ms. SMITH. FEMA is obviously the first contact.

Chairman MANZULLO. Could you give the order that you did it in? Your house was flooded?

Ms. SMITH. No.

Chairman MANZULLO. Or the business was flooded that day? Okay.

Ms. SMITH. My commercial property was flooded.

Chairman MANZULLO. Okay.

Ms. SMITH. My house was damaged, but it was livable.

Chairman MANZULLO. Okay. Go ahead.

Ms. SMITH. First contacts, and I didn't apply until we got back to see the damage. We couldn't even get to the commercial property because that was just a restricted area. But to the home, we could get there.

We applied with FEMA, let them know I had both a business and home losses and they told me at that time to go ahead and apply through them. They could help me with the application for the residential side, but that I would have to speak and contact the SBA for any help with the business losses.

So that's what I did. I went through the process of contacting the SBA which just like anything else when we say I called someone on the phone, it's not what you and I think about calling someone on the phone. That might take me two weeks. So these ordeals when I'm telling you it's taking me time to get through to FEMA or it's getting me time through that and it's not necessarily a fault of theirs. It's a disaster issue.

So I get through with the SBA and filed that application.

Chairman MANZULLO. That was your first contact with the telephone call. Is that correct?

Ms. SMITH. Yes.

Chairman MANZULLO. Go ahead.

Ms. SMITH. And so I contacted them. Actually, when I contacted them, I was also trying to get internet service up and running and trying to find out where to go. But I understood that, okay, this is what you need to do. You need to fill out an application. I downloaded an application and then I went over to a disaster recovery center.

Chairman MANZULLO. And you met with an individual there?

Ms. SMITH. Yes, and I have to tell you. I was very pleased when I met with that individual.

Chairman MANZULLO. Was that in Baton Rouge?

Ms. SMITH. No, that was actually in Bell Chase, Louisiana which is Plaquemines.

Chairman MANZULLO. Okay. Go ahead. That's where my dad is from.

Ms. SMITH. Oh, really.

Chairman MANZULLO. Yes. He was born in Donaldsonville.

Ms. SMITH. Not Plaquemines, Louisiana. Plaquemines Parish.

Chairman MANZULLO. Okay. And then he moved there to-but go ahead.

Ms. SMITH. But the SBA person told me that not only should I apply for a business loan, but that I should apply for a loan for my home and I said I don't really need one for my home. I really want to focus on getting help for my business. He said, "No, no. Trust me. Apply for both of them. You don't know that you might not need it."

These days I'm not so happy that everyone's being told to apply for a loan whether you need it or not, but I went through that process and I applied for the loan. He told me to fill out the application. It told you a lot of attachments you needed to have. I had four years history of the company showing the growth. He told me to

make copies of all of my three years tax returns because it would make the process go faster.

So I did that. I took all of that over a period of days while I'm trying to get my business going and pay bills. I brought that back to him. He checked my packet over and said he would overnight that I think through the Baton Rouge office. So that was my next contact.

Chairman MANZULLO. Do you recall what the date was?

Ms. SMITH. September 19th.

Chairman MANZULLO. Okay. Go ahead.

Ms. SMITH. So at this point, I can tell you. We were very, I guess, hopeful thinking we were depressed, we were overwhelmed, but we were hopeful. It's a real mix. I heard someone say that it was really months that businesses were really maybe not back, what to do, still overwhelmed. It's true. It really was true.

Truthfully, I don't think that the SBA needs to be in there Day One because you're not ready. But when they do get contacted, they need a fast response. Because when they told me three weeks, I said, "Okay. That's difficult, but I can plan my business around a schedule." Understand. He's not just talking about a home, but I have employees that I had to let go and I was trying to decide do I keep them. These aren't employees that just work in a retail establishment. These are 30 year engineering people. These are people with electronics and audio-video skills. These are not just something that you just find. A business like mine, key employees and losing them is important.

So after about four weeks, I called, I tried to call the SBA. I could get them. I actually emailed them to find out the status.

Chairman MANZULLO. It was the same individual you tried to contact.

Ms. SMITH. You don't have an individual. There isn't anybody that, there's nobody assigned to your case which is the problem of not having a champion. You don't get somebody assigned. You just get different people.

Chairman MANZULLO. The person that took your application didn't tell you to check back with him. Was that it?

Ms. SMITH. No, in fact you can't. There's a number you're told to call which is very busy. You can reach it. So I was eventually able to send an email. I did have a nice lady that called me back and told me, yes, they had the application.

Chairman MANZULLO. Did you apply to any other agencies in the state, any banks for any bridge loans or anything?

Ms. SMITH. No, I didn't apply. There was a \$25,000 bridge loan. The problem is, and you all know this, is that \$25,000 bridge loan, I would have to pay that back. Well, I already had mortgages that I had to pay back and we were worrying about the continuation of the business. I have lost my property. I had mortgaged my home to buy the property.

Chairman MANZULLO. You had to pay back the SBA loan also.

Ms. SMITH. Right.

Chairman MANZULLO. Was the bridge loan paid back faster?

Ms. SMITH. I don't really know the terms, but it wasn't enough. Anyone that knows about borrowing, you borrow not just the minimum amount needed.

Chairman MANZULLO. Just wasn't enough to take care of you.

Ms. SMITH. Right.

Chairman MANZULLO. Okay.

Ms. SMITH. So why have to turn that around and pay that back? It didn't handle it. But I did apply for grants. I was reading a lot about anyone that had any kind of loan. I contacted Louisiana Business and Industry, applied for grants with them.

Chairman MANZULLO. I need to interrupt you because I want Ms. Velazquez to have some time here before we're called off for some votes and hopefully we'll get the rest of your story out here. Thank you. Ms. Velazquez.

Ms. VELAZQUEZ. Thank you. Thank you, Ms. Smith, for sharing your story with us. I would just like to ask you. If you have gotten this loan in the first three weeks like you were originally led to believe, how would things have been different for your business?

Ms. SMITH. I would not have lost those key employees. I really could have continued and planned. I have a backlog of workload. I can't keep up with it. I don't have those people. You can't just say "Oh, well maybe I'll be able to keep you on." You can't just say "Hang in with me and don't make any money." I needed to know the plan and I needed some help with that or either I had to decide to let them go.

Ms. VELAZQUEZ. So you were here and you listened that Administrator said that they are meeting the challenges in responding to Hurricanes Katrina, Rita and Wilma. Do you agree?

Ms. SMITH. No, he doesn't understand the challenges and I'm not being ugly because truthfully I listened to a lot of what he said and you know I think he means well. I really, really do. I wanted to give him some feedback, but he's not. And I heard a couple people ask questions that have been there, that have seen as you call your constituents. But he almost doesn't have a clue.

We look at it as the SBA has all the wrong measures and goals. The mission of the SBA, truthfully I'm not sure what it is and I'm not sure that he has a clear understanding. Probably if we went around this room here, we might all think of it for different things. If you don't have a clear mission, then you're not going to be able to succeed. Well, you asked a lot of other questions that I could comment on.

Ms. VELAZQUEZ. What sort of specific reasons did SBA provide you regarding your denial?

Ms. SMITH. Okay. It was a little confusing because first of all, they started with looking at the depreciation method used on my property which was flooded. So it wasn't a valuable asset anyway, but since my accountant had taken a 50 percent depreciation the year prior because our income was up enough, so from a tax standpoint, we needed to take that depreciation. So he told me that if I had not taken a 50 percent depreciation on that building, that I could have gotten a loan.

But he then followed up and said "You're going to receive a letter saying that you've been denied for lack of repayment ability " and that's what I've gotten in the letter.

Ms. VELAZQUEZ. And what follow-up did SBA do after they denied you?

Ms. SMITH. Oh, well, they didn't do anything, but they mistakenly told me to go apply to FEMA for a grant. At that point, I'm thinking maybe this was a blessing. Maybe this is a good thing. So I had to get paperwork in order for them because they want to compare with what's going on in your insurance. I contacted FEMA to find out. FEMA doesn't do anything for businesses. They were like "Are you crazy? Who told you that?" I said, "The SBA told me to come see you." And they said, "No, we can't help you with that."

Ms. VELAZQUEZ. SBA's Collateral Policy in 13 CFR 123.11 states that SBA will not decline a loan if the applicant lacks a particular amount of collateral as long as it is reasonably sure that you can repay the loan. With this standard in mind, do you believe that you were treated fairly?

Ms. SMITH. Not on purpose. I don't know if it's because they brought new people in. But they didn't discuss with me pledging any type of collateral. That was not something that was discussed at all. In fact, that's the problem until this day is that no one has talked to me about what do we need to get this loan to get the help. There is no one out there doing that. They keep handling paperwork and getting one or two more questions answered.

But as far as the whole collateral side of that, there's a lot of things that we have. I mean you could ever do a pro forma. In general business loans, you could do a pro forma. But I have IRAs. I may and I probably will end up taking my IRA money.

Ms. VELAZQUEZ. What is your perspective on SBA's encouraging individuals to apply for loans?

Ms. SMITH. That to me, and I heard this a lot about the number of individual loans applied for, during a disaster is not the time necessarily to be doing that. Okay. What they've done is that they've created a large queue of people that are waiting for assistance and there's no real separation between business and how it's affecting economy versus someone that wants to improve and change the siding on their house so that it will withstand the next hurricane and there's clearly a difference between those two. And they continue to encourage more and more people to this day to apply for SBA loans.

Ms. VELAZQUEZ. So would you say that there was a lack of planning for a large disaster like the one that we encountered here?

Chairman MANZULLO. I think her answer is obviously. Mr. Bradley.

Mr. BRADLEY. Thank you very much. I'm having somewhat of a difficult time understanding how in a disaster situation the depreciation schedule is assumed to be a non disaster situation I guess and well, maybe comment on that first.

Ms. SMITH. The word-

Mr. BRADLEY. Because isn't that your problem? Isn't that key problem why you were denied?

Ms. SMITH. Confusion is the key problem in some cases because at first, that's what I thought. But then it says lack of repayment is the idea and collateral versus lack of repayment could necessarily be the same, but is not necessarily the same and we all know that. They related the two as they are one and the same. I could not, and I challenged the guy when he told me this. I said, "I don't understand what the paper depreciation of my business

that's flooded has anything to do with a disaster loan." And his answer was, "I'm sorry. If you hadn't done that, we could have given you a loan."

Mr. BRADLEY. So to go from your case to the larger case here and generalize it and where we can go from here because I think that's why you're here, SBA has to show more flexibility on the box, to begin with just the depreciation. Right? Wouldn't that be No. 1?

Ms. SMITH. I think that's true because if we all look at what a true disaster means it's almost nothing left. Right? So in that sense, you have to be looking at what the future or the potential holds and not necessarily what the current assets are.

Mr. BRADLEY. Because it's all based on repayment schedules in the future and your potential earnings capability.

Ms. SMITH. Exactly.

Mr. BRADLEY. Which you were able to prove based on your eight year track record.

Ms. SMITH. That's what I would have assumed.

Mr. BRADLEY. Right.

Ms. SMITH. But that's the point they never discussed.

Mr. BRADLEY. And it seems like, Ms. Smith, listening to your testimony that one of the real significant problems that you had was that there wasn't one person to help you, walk you, through the process and that you kept banging up against brick walls not only in terms of like the box of how your loan was going to get looked at but one person to help you through the maze of problems. Is that it?

Ms. SMITH. That is very much correct. In fact, what you heard is a portion of the story. I may have talked to a dozen SBA people at different times for different things. It really gets a whole lot worse than I painted.

Mr. BRADLEY. And you said a couple of different times that you had to wait a couple of weeks just to get a phone call answered and didn't have internet capabilities. I don't know if that was on your end or on the SBA end, but either way there was not one person and seemingly incapable to being able to communicate quickly.

Ms. SMITH. Yes. You know the point is that you try to tell people "Just keep trying. Just keep calling them and you'll eventually get through." So you go "Okay. Am I sitting around doing nothing?" No, I'm not. I'm trying to succeed on my own. I'm trying to handle my customers. I'm trying to do my payroll. I'm trying to do my taxes." So you're constantly trying at different times and it takes quite a while and the internet service down was on our part. Internet was months before it came back.

Mr. BRADLEY. In the couple of minutes that I have remaining, are there any other issues that you think would improve the situation out of your experience in how you interacted with the SBA?

Ms. SMITH. The champion you keyed on, I think that's key. That is very key, but it's not just one person there. I think whoever heads the SBA needs to be a champion for business. Okay. I really do, you all. They can't be a champion for themselves so they look good. All right. And people don't do that because they're trying to beat the system or do a bad job. They just don't want to fail. But the problem is he has to measure his success by the success of the businesses.

I heard someone say "You're giving me, you're bragging on statistics and the loans." Would it be nice if we'd heard him bragging about the number of businesses they helped to bring back? That's probably the key.

And then I've heard things about the planning process. That lack of planning process is evident. It is clear to me. I can see that. They don't have processes. They don't have measures. You know they don't have the right goals. So that's why we can sum up that there isn't the correct mission statement for that company.

Disaster planning, which I have a background in by the way because I'm on the IT side, isn't something that is not easy to do and I understand that. But I guess I expect it of a government agency and the problem is that we have to quit saying how wonderful we're doing and saying "Oh, gee. I'm trying to do good" and let everybody admit "Okay. I'm trying to do good, but we can't handle disasters." But let's use that and learn from that for the future.

Mr. BRADLEY. I just have one more quick question, Mr. Chairman. I think you said in your initial testimony that by no means were you the exception to the rule, that your story is very similar to-

Ms. SMITH. It may be similar. It might actually be better. I'm still there. Many aren't.

Mr. BRADLEY. Okay.

Chairman MANZULLO. Thank you, Ms. Smith. I'm going to ask Herb Mitchell to take the stand up there and you can stay there, Ms. Smith. You're sitting next to the man in charge there if that's okay with you. Could you please state your name and your capacity at the SBA.

Mr. MITCHELL. Herbert Mitchell. I'm the Associate Administrator for Disaster Assistance at SBA.

Chairman MANZULLO. And you've been there for how long?

Mr. MITCHELL. I've been with the Agency for a little over 28 years, been in the Office of Disaster Assistance for ten, been head of the Disaster Loan Program for five.

Chairman MANZULLO. Okay. Mr. Mitchell, you've heard Ms. Smith's very compelling testimony. Is there anything that you want to add to that?

Mr. MITCHELL. First of all, I certainly apologize for some of the confusion and one of the challenges in every disaster is that for the first part of it, and this is what a lot of people don't understand, most of the time when you go to buy a house or buy an automobile, we don't fill out applications in this country in terms of our loan process. It's the real estate agent or the finance folks working with us and recognize that. What we try to do is to make sure we have customer service representatives in the disaster recovery centers, in the field locations, to help people through that process. We try to enlist the aid of the Small Business Development Centers to help people through that process.

But it is challenging. I've gone there and I've seen the expression on people's face in terms of just the confusion of what does all of this paperwork mean, what does it mean that I can't use the money that I got from my insurance recovery to pay off my mortgage and if I do that, I'm not qualified for an SBA loan. It can become very confusing.

Just quickly. Congresswoman Velazquez is absolutely right. There is no requirement. There is a requirement for collateral only best available. If you have no collateral, you should not be declined and nobody in SBA should tell you that, one.

If the issue, and I'm not sure what the issue around depreciation schedule, the primary factor in getting an SBA disaster loan is cash flow. One of the things that has to happen is that the loan officer needs to evaluate how much cash flow is available to make the loan. So if you're reporting a net income of let's say \$100,000, but you've written off say \$50,000 in taxes, they only need to know that depreciation amount because that amount gets added back to the cash flow to determine how much is available in terms of actual cash. That should be happening in the process.

I haven't had a chance to take a look at your application. I know that the credit history is excellent. I know that there may be some challenges in terms of how the cash flow is being calculated. You have my personal commitment that I plan to personally take a look at that application to make sure that it's done correctly.

But I certainly apologize if there was any confusion around the fact that that somehow you're being declined because of the 50 percent depreciation. That is not the case and should not be the case. It's only a matter in terms of finding out that number to determine what the exact cash flow is available to repay the loan.

Chairman MANZULLO. Thank you. Ms. Velazquez, do you have any questions you want to ask?

Ms. VELAZQUEZ. Mr. Mitchell, will you do that with the other 60 percent that has been declined?

Mr. MITCHELL. I can tell you this. This past weekend I have personally answered 12 emails. On the average I get probably about anywhere from 15 to 20 cases referred to me personally every day. I will try my best to make sure that those cases are reviewed properly and make sure that people get a response.

Ms. VELAZQUEZ. Thank you. And I hope that you understand my frustration. My frustration is that too many families are suffering that lost their businesses. She was lucky because she is still there standing. But you know that they made a mistake because contrary to the statute, they're saying that she needed collateral. How many others were denied for the same reason?

Mr. MITCHELL. I'm not acknowledging a mistake. What I'm saying is that if she was declined for lack of repayment ability, that's the reason. If there was any communication around the fact that you were declined because of lack of collateral or the 50 percent depreciation rule, then that's miscommunication and that's what I plan to clarify.

Chairman MANZULLO. I think Ms. Smith wanted to add something. Ms. Smith, go ahead please.

Ms. SMITH. Thank you very much. When I was listening to your explanation, it also goes back to the right measures in trying to help businesses through disaster and I'm hoping maybe we'll get a chance to talk because you can apply not only for your loss of property, but an economic injury loss. Now I'll ask you this. Why is there on the form for the SBA that you can apply for an economic injury loss as well as for your loss of assets when what they're saying is that "Okay, you lost your assets. Maybe it shouldn't be that

we're looking at your loss of assets but as long as you show repayment." From what they looked at for repayment for us was that immediate "okay, we don't have any income." And I know we didn't have any income. We had applied for economic injury loss also at that time.

So I think while I know we're trying, I think someone needs to revisit that with the spirit of what we want businesses to succeed. I mean if you look at the overall success for me, the taxpayer, what I really would like to see is the economy grow. And do I agree that you can invest money? Yes. Do I agree that you should throw it away? No. So I think there needs to be some procedure, but at the same time, we're talking about disaster loans for getting businesses back and up and I think there is a lot of confusion and even maybe within the SBA about that.

Ms. VELAZQUEZ. Ms. Smith, we have, the Committee, to reauthorize the Disaster Loan Program. Based on your own experience, what would you tell us that we need to do to fix how the program has been run?

Ms. SMITH. I would bring in a few people that truly understand the problems. All right. I would not just bring in this disaster planning expert that they referred to earlier because they don't really see the impact. Let's look at this just like you might take any process to try to fix this and say what is the outcome that we want to try to achieve. Have a team of people that sit there and develop a plan. Let them start with a mission statement and I think this Committee probably should approve that mission statement and give them some guidelines on how to proceed.

I think we need a revamping of the whole SBA process if you should think that the SBA should be involved in disaster loans. Now maybe you make the decision that they shouldn't be involved in disaster loans.

Ms. VELAZQUEZ. If you allow me. When I address the issue of having a planner in charge of the natural disaster and then the Administrator said that Mr. Mitchell is the person in charge, I said he is running the Disaster Loan Program. That is not the same to be the person in charge of planning the response.

Ms. SMITH. Where I come from, every department has their own disaster plan. Every company, every department, has that. The head of that department should be responsible for its disaster plan and being able to succeed in its mission. Just the fact that you say that someone else handles disaster planning doesn't mean that that is going to effect how the SBA should operate.

Ms. VELAZQUEZ. Thank you. Thank you, Mr. Chairman.

Chairman MANZULLO. Did you want to respond to that?

Mr. MITCHELL. Well, just a couple things. There's no question that throughout the Federal Government there have been lessons learned and we need to do a better job of planning and doing contingency planning. But the SBA already has a lot of flexibility already built in to terms of how we respond to disasters.

We have special authority in terms of how we hire and how we're able to get people on board quickly. We have contracts in place that allow us for example. We not only hired an additional 4,000 people, but we were able to equip them, get space. We have special arrangements with GSA in terms of how to do that. I have special

authority in getting priority for telecommunications equipment. So we have a lot of that.

The question is what do we need to do to deal with catastrophic events beyond what we currently have in place to deal with.

Chairman MANZULLO. Anybody else have any questions or comments? Good. Mr. Akin.

Mr. AKIN. Thank you, Mr. Chairman. I've been trying to be a good listener here and I guess I sense a little bit of kind of almost two different stories about what's going on. I'm not quite clear. The first thing that I got the impression of, Patricia, was that you gave us the impression that there were lots and lots of small businesses that needed help and needed loans and couldn't get them. Is that fair to say?

Ms. SMITH. It's correct. It's too difficult and it's not timely enough. You have to make a decision to keep your employees and let them go. You can't wait months.

Mr. AKIN. So you're saying that perhaps the specific reason that you didn't get your loan may have been more unique. But what is not unique is that there is lots and lots of small business that needed loans in a disaster situation and couldn't get them. Is that a fair summary of what you said?

Ms. SMITH. That's a very fair summary. In fact, one of the things that I've heard is there's a statistic that very early in the process a number were denied and they're saying that was given artificially, I was quoting a Rich Carter who is a spokesman, high rejection rate. I thought if you read that, he's expecting that they're going to have some rejections early on because the businesses aren't back and going again.

Mr. AKIN. Okay. I just want to make sure I wasn't putting any words in your mouth. This is what I'm trying to reconcile. Now what I think I heard you say, Herb, was that the fact that the businesses in a disaster situation and that threatens their ability to repay the loan is not in and of itself a reason to deny a loan. Is that correct?

Mr. MITCHELL. That's exactly right.

Mr. AKIN. Let me try and do it one thing. I'm kind of slow at working through this. Be patient with me. So if that's not a reason, now next of all, would you say that it's true that there are lot of people that wanted loans down there that you weren't able to give them loans?

Mr. MITCHELL. I don't know the exact figures for the decline rate on the business side but I would say it's probably well over 50 percent that have been declined. Yes.

Mr. AKIN. So if you have people who are applying for loans and 50 percent of them were told no, then that would corroborate what Patricia is saying, wouldn't it, to some degree?

Mr. MITCHELL. Well, there's no question. First of all, I think we sent out over 300,000 applications and we've gotten back a little over 50,000. So obviously, there's a gap between those who initially expressed a need and those who actually applied and there being a lot of reasons of why they didn't apply.

Mr. AKIN. Okay. So there is a need for these loans. Now is part of the reason why they're denied just because you're buried down there because you talked about personally you met with all these

people. Are you just overwhelmed by the demand or is the fact that 50 percent of them were denied. Why would the other 50 percent be denied?

Mr. MITCHELL. The primary reason for denial is lack of repayment ability. You don't have sufficient cash flow to repay the loan or the unsatisfactory credit history. Those are the two primary reasons for declines.

Mr. AKIN. So your lack of ability to repay, I would think that storm damage would be the main thing that would effect that. You're saying you don't put that into the equation and they still couldn't repay. In other words, if we went to a time before the storm and they asked for a loan, you're saying they wouldn't get one then either.

Mr. MITCHELL. The disaster program-

Mr. AKIN. Is that what you're saying?

Mr. MITCHELL. No. The Disaster Program is very unique in that regard. We're taking the risk and we're basing the repayment ability on predisaster financial condition.

Mr. AKIN. Okay.

Mr. MITCHELL. So we're not holding anything that impacted them as a result of disaster against them. It's all predisaster.

Mr. AKIN. So you're saying of these businesses that have applied for loans then, the situation is that prior to the hurricane half of them financially were shaky enough that you just couldn't give them a loan based on the parameters that you either grant or don't grant loans.

Mr. MITCHELL. If they had cash flow prior to the disaster and their credit history is satisfactory prior to the disaster, they qualify for a loan.

Mr. AKIN. Okay. So that may be an explanation. Now in your particular case, Patricia, you could have gotten a loan beforehand, couldn't you?

Ms. SMITH. Well, that's a good question. I took out a loan when I bought my property and I borrowed against my home in order to buy my property. So in that case, would I say I could go out and get another loan? No, but I didn't need it. My business was operating fine. I was expanding just on current cash flows. I was using day-to-day cash flows just to make my expansions happen.

Now could I have afforded to go and get a loan? No. I didn't see any revenues coming in for that. The whole issue was this was a disaster. I lost my building and now I needed help. Prior to the disaster, I didn't need help. That's the difference and maybe that's a measures issue.

Mr. AKIN. So we're talking this is where the two trains seem to be passing each other a little bit. On the one hand, you said I can run my business, but I might not have qualified for a loan before the hurricane. After the hurricane, I can't run my business without a loan and I'm hearing SBA, Herb, saying the parameter we're using is you had to qualify ahead of time and that could explain half of the places where we're not able to help. That sounds like something we probably should focus a little attention or energy on.

But see that little red light. You know they have a shocker in our chair if we go beyond the time.

Chairman MANZULLO. Let Mr. Mitchell go ahead and respond to that.

Mr. MITCHELL. And what you're raising is the challenge in every disaster. Obviously, there is a disaster and certainly businesses and individuals have been impacted and the federal design right now is the loan program. So there's a balance between the two and obviously, certainly we're taking risks that no other lender would take. We have very lenient criteria, but at the end of the process it is a loan program.

Chairman MANZULLO. I just have one question. You've been very, very patient, Ms. Smith, and I appreciate your time. Did the person that gave you this 50 percent, whatever, depreciation, I don't understand it because when my brother ran his restaurant he didn't depreciate anything because he had all used equipment that had been paid for for about 40 years. Did that person tell you or did the documents say that you had the inability to repay the loan and that's why you're being turned down?

Ms. SMITH. The document that I received said lack of repayment ability.

Chairman MANZULLO. And then if you had gotten the loan, how much had you asked for?

Ms. SMITH. At that time, I have to tell you I haven't reread the paperwork, but it was \$250,000 in property losses and I think \$100,000 in economic injury losses.

Chairman MANZULLO. And did you have the ability to repay that \$350,000 if after the disaster the business picked up to where it was prior to the disaster?

Ms. SMITH. Well, when I applied for the loan, I said I don't just want to apply for a loan. I want to talk about terms. I want to talk about repayment schedule and that was the first thing and that's when they told me just fill out the paperwork and in three weeks someone will call you. I've never had that discussion.

Chairman MANZULLO. So no one told you how long it would or any terms.

Ms. SMITH. No, I eventually found out that you have 12 months to repay it and then that's when I told them, I said, "You understand right now"-By the time I got, that's in November now, many months after. I said, "Do you understand now if I start fixing that building back, the construction process, construction is crazy right now in New Orleans, that construction process may take longer than that." So now in November, I told them, "I'm not sure that I want the loan."

I said, "You know you have to understand. It was important to me when I had my key people on board. I've let people go now and now you're talking about a loan. I have to plan this. I can't say I'll take the money. If you'll award me that loan, I have to relook at this." And that was an issue for me of how to repay that back. But no one said, "You qualify for X number of dollars." No discussion with that. That's what I would have expected in a disaster loan.

Chairman MANZULLO. So you were turned down based on inability to pay \$350,000 but if you would have gotten perhaps \$150,000, you would have been able to do that.

Ms. SMITH. Probably get the building corrected.

Chairman MANZULLO. I think you probably needed somebody to talk to to walk you through it.

Ms. VELAZQUEZ. But, Mr. Chairman-

Chairman MANZULLO. In that case, you may not even have decided to take the loan. That would have been your option at that point.

Ms. SMITH. It would have been my option. Right.

Chairman MANZULLO. Okay.

Ms. SMITH. I would have probably matched it with my IRA money to it easier on myself.

Chairman MANZULLO. Okay.

Ms. VELAZQUEZ. You said that an employee told you that you have only 12 months to repay.

Ms. SMITH. Yes. Before you start paying the loan.

Ms. VELAZQUEZ. Okay. But isn't it true that you have up to 30 years to repay?

Mr. MITCHELL. Yes, the maximum term can be up to 30 years. What we do is for this disaster we've already authorized a 12 month deferment period before payments start. On an individual basis, that can be extended based on how long it takes to actually rebuild that particular business. So the field can extend up to 24 months in terms of the first payment due.

Ms. VELAZQUEZ. Isn't it true that it can be deferred up to two years?

Mr. MITCHELL. Under current process, the field office can defer payments for two years. Anything over that comes to Headquarters and certainly we can take a look at that on a case-by-case basis.

Ms. SMITH. That would have been helpful.

Chairman MANZULLO. Well, thank you very much. Maybe you can help out the folks at SBA with some planning. You've certainly had a lot of experience. Are you operating now, Ms. Smith?

Ms. SMITH. Yes, I am.

Chairman MANZULLO. How did you get up and going?

Ms. SMITH. That's hard to say. We eventually just started getting customers calling, saying they needed. We're somewhat in the construction industry, but we were new construction. Our market has changed severely, but they now have people that are trying to bring their houses back and in that case, we do the lighting and automation and all the control systems in there. So you would think they would want it fixed. In addition to that, now people while they're fixing their homes, maybe they want to put some of those systems in. They want to improve the lighting. They want the home theaters to come in. So we're getting that work.

It's just I'm struggling because I don't have my key people back fully yet until I can kind of plan all of that. I'm a planner. Okay. I want to plan my strategy out and that's why I've been asking to sit down, in the queue applying for my loan. How can we work? What kind of repayment schedule? So I can kind of get this next phase because right now, I'm out of pocket for the work I'm doing on my building.

Chairman MANZULLO. Okay. Thank you very much for coming. I appreciate it very much.

[Whereupon, at 4:45 p.m., the Committee was adjourned.]

DONALD A. MANZULLO, ILLINOIS
CHAIRMAN

NYDIA M. VELÁZQUEZ, New York

Congress of the United States
House of Representatives
109th Congress
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6115

REMARKS OF CHAIRMAN DONALD A. MANZULLO

"FY '07 BUDGET AND REAUTHORIZATION PROPOSALS OF THE SBA"

March 15, 2006 2:45PM in Room 2360 Rayburn HOB

Today, the Committee will examine the President's Fiscal Year 2007 budget and reauthorization proposals of the Small Business Administration.

The President's budget request includes \$624 million in spending for the SBA in Fiscal Year 2007. This is about 37 percent less than what was spent on the SBA in Fiscal Year 2001 while, during the same time, the SBA served more small businesses than ever in its history. The SBA certainly knows how to do more with less and it ought to be commended. While the President's budget request for the SBA is generally sound and reasonable, there are a few notable exceptions, particularly in the proposal to increase fees in the SBA's finance programs to begin to cover its administrative expenses and the idea to institute an adjustable interest rate for disaster loans in the fifth year. However, I would be negligent if I did not remind my colleagues and the small business community that the President's budget request also includes the following key tax relief proposals of keen interest to small business:

- 1) Making permanent the tax cuts previously passed by Congress, including "death" tax repeal, in which the average tax savings in 2005 was \$3,235 per small business according to the U.S. Treasury;
- 2) Making contributions to Health Savings Accounts tax deductible; and
- 3) Enacting an even higher and permanent small business expensing limit to \$200,000.

The Committee is also in the middle of a comprehensive review of all SBA programs, which has not been done since 1995, in preparation for reauthorization. In 2004, Congress passed a two-year reauthorization bill that made a variety of significant changes to the policies and small business programs of the SBA. The Committee is reviewing how the SBA has carried out the various programmatic changes contained in the previous reauthorization and ideas for further reform. Two weeks ago, Rep. Musgrave's subcommittee examined SBA's entrepreneurial programs. Last week, Rep. Bradley's subcommittee reviewed SBA's finance programs. And after the March district work period, Rep. Akin's subcommittee will conduct an oversight hearing on SBA's procurement programs.

Today we are honored to have the Administrator of the SBA, Hector Barreto, testify before the full committee to discuss his vision of the direction of the SBA for the remainder of the Administration. Mr. Barreto is the second-longest serving SBA Administrator in its history and I am pleased that he is taking the time to be with us this afternoon.

Through the hearing process, the Committee has received input from SBA stakeholders as to what should or should not be included in a reauthorization package. About two weeks ago, the Committee received the Administration's legislative proposals for the SBA. The purpose of the hearing today is to examine these proposals, particularly in light of input we have received from other SBA stakeholders.

I am pleased that the Administration included several provisions in their reauthorization package that would further improve SBA's response to catastrophic disasters. The SBA has done an excellent job already by approving a record \$6 billion in low-interest disaster loans for over 86,200 Gulf State residents and business owners affected by Hurricanes Katrina, Rita, and Wilma at a rate twice as fast as the nation's previous largest disaster, the Northridge earthquake in 1994. SBA has hired and trained 4,250 employees to process disaster loan applications; doubled the size of their loan processing center; quadrupled the size of their call center; doubled access to the loan processing system; streamlined documentation for all business loans; simplified approvals and processes for business loans under \$100,000; expedited loan approvals with credit scoring; created a new system for tax verification with the Internal Revenue Service (IRS); and launched the *Disaster Loan Partners Initiative* designed to increase the role of private sector financial institutions in recovery efforts. The further reforms that the Administration seeks include increasing the size of disaster loans, offer economic injury disaster loans to non-profits, and provide more flexibility to allow Small Business Development Centers to redeploy resources and staff to assist disaster victims. This will require legislative changes to the Small Business Act.

I will also be working on initiatives to further improve and expand the reach of SBA's finance programs to serve more small businesses, all within the context of a zero loan subsidy rate, and SBA's entrepreneurship programs as part of the SBA reauthorization process.

I now yield for an opening statement from the ranking minority Member of the Committee, Representative Nydia Velázquez of New York.

SMALL BUSINESS ADMINISTRATION

Since 2001, the Administration:

- Supported nearly \$86 billion in small business loans through 2005;
- Provided tax relief of more than \$80 billion annually to 25 million small businesses since 2003. The average tax savings in 2005 was \$3,235 per small business;
- Signed free trade agreements and provided trade promotion services that help small business exporters sell their products to the world; and
- Reduced Small Business Administration staffing by 24 percent while improving customer service and making record numbers of Government-backed loans.

The President's Budget:

- Provides \$28 billion in Government-backed small business loans for 2007, the highest level ever for the Small Business Administration. This will help create and retain an estimated one million jobs;
- Proposes modest fee increases on very large loans to cover the administrative costs associated with providing Federal Government guarantees on these loans; and
- Reforms Disaster Loan program interest rates to ensure that borrowers receive generous benefits after a disaster event while reducing taxpayer costs.

FOCUSING ON THE NATION'S PRIORITIES

Small businesses provide more than half of existing private sector jobs, two-thirds of new private sector jobs, and more than half of the United States' Gross Domestic Product. The Small Business Administration's (SBA's) mission is to promote small business development and entrepreneurship through business financing and technical assistance programs. SBA also works with other Federal agencies to reduce regulatory and paperwork burdens on small businesses.

Reduced Taxes Help Small Businesses

[W]hen the tax cut hit the paychecks, our revenue went up. In fact, it saved us last year...[W]e were not having a good year last year, and we were looking at some retrenchment and stopping our growth. When the tax cut hit, we immediately began the move up, and had a strong fall, got back to even, which was good.

Scott George
Mid-America Dental and Hearing Center, Kansas City

In addition to SBA's programs, the Administration is championing small business interests through tax cuts and health care reform. The President's jobs and growth agenda is creating the right economic conditions to encourage innovation and growth by small businesses. The Administration has taken important steps to assist small businesses and the people they employ by reducing taxes, encouraging investment, and removing obstacles to growth.

As a result of the Jobs and Growth Tax Relief Reconciliation Act of 2003, 25 million small businesses and their owners received tax relief averaging more than \$3,235 each in 2005. The lower marginal income tax rates have assisted more than 90 percent of small businesses that pay taxes at the individual income tax rates.

Recently enacted free trade agreements help small and medium-sized businesses (those with fewer than 500 employees) sell their products to the world, as these entities represent 97 percent of all exporters.

Continuing regulatory relief efforts ensure that Federal regulations do not unduly handicap America's entrepreneurs. Regulatory and paperwork requirements can be especially burdensome on small businesses. An SBA study found that small businesses with fewer than 20 employees spend an average of \$7,647 per employee complying with regulations as compared to \$5,282 per employee for firms with 500 or more employees. SBA works with Federal agencies to minimize the burden of new regulations. As a result of the Administration's efforts since 2001, SBA estimates that small businesses have been spared over \$41 billion in regulatory costs by filtering out unnecessary, over-burdensome, or duplicative requirements prior to finalizing new regulations. In 2007, SBA efforts are expected to save \$6.16 billion in forgone regulatory costs. SBA also launched www.business.gov as the official Federal business portal to reduce the amount of redundant data and forms submitted to the Government. This reduces the burden on small businesses.

The Administration also supports legislation enabling creation of Association Health Plans, which will allow small businesses to band together and purchase insurance at lower rates, and making insurance premiums associated with Health Savings Accounts tax deductible. In addition, the proposed comprehensive reform of the Nation's medical liability laws will make insurance costs more affordable and reasonable for small businesses.

Helping Small Businesses' Capital to Grow

SBA Helps South Central Los Angeles Business Expand

Abel Diaz is a true local success story. After graduating from Inglewood High School in 1970, he went to work as an apprentice at Inglewood's Kream Krop Bakery. During 10 years of learning the bakery business, he moved up the ladder and was named the firm's general manager in 1980. Diaz spent the next six years managing the company before he struck out on his own and opened Lupita's Bakery in South Central Los Angeles in 1986. Diaz's 16 years of experience in the bakery business served him well. His well-managed business grew by leaps and bounds, allowing him to open a second bakery in South Central Los Angeles in 1990 and a third location in Huntington Park in 1996. Ever alert for new business opportunities, by 1998 Diaz became conscious of the fact there was a definite need for a banquet and restaurant facility in the community served by his bakeries that could also accommodate weddings and large group functions. He turned to SBA for assistance. Thanks to SBA-backed financing through Banco Popular, Diaz opened his Fiesta Mexicana Family Restaurant with available space for a banquet hall. It is strategically located next to Lupita's Bakery and is continually booked, busily providing a valuable and popular community gathering place. "Abel Diaz is a perfect example of how SBA financing can facilitate growth for an Emerging Market community," Los Angeles SBA District Director Alberto G. Alvarado said. "He has succeeded in both the bakery and catering businesses thereby creating new jobs in a historically underserved area. I congratulate him on his success."

To meet the demand of the growing small business sector, the Budget supports \$28 billion in small business lending. SBA's 7(a) program, which received an Adequate rating under the Program Assessment Rating Tool, is being increased to support \$17.5 billion in guaranteed loan volume in 2007, the largest level in the history of the program. This will provide financing to entrepreneurs who could not obtain affordable loans without a Federal Government guarantee. SBA's Section 504 loan program will support an additional \$7.5 billion in guaranteed loans for fixed-rate financing of fixed assets such as land, equipment, and buildings. SBA will also supplement the capital of Small Business Investment Companies with \$3 billion in guaranteed long-term loans for venture capital investments in small businesses.

Providing Technical Assistance

SBA and its partners provide technical assistance programs, including training, counseling, mentoring, and information services to more than four million existing and potential entrepreneurs annually. SBA provides grants to a network of over 950 Small Business Development Centers; 389 SCORE chapters, which match executives with entrepreneurs for business counseling; and over 80 Women's Business Centers. The Budget requests \$104 million for technical assistance programs in 2007.

RESTRAINING SPENDING AND MANAGING FOR RESULTS

The 2005 Budget included a proposal to eliminate the subsidy cost of the 7(a) guaranteed loan program, which was successfully implemented. The program assisted more small businesses in 2005 than the previous year and this trend is continuing in 2006. In addition to saving taxpayers \$100 million per year, this budgeting change has brought stability to the program. Lending in the 7(a) program grew from \$9 billion in 2003 to \$14.3 billion in 2005. Whereas 2003 and 2004 shortfalls in appropriations required SBA to suspend program lending in several instances, the current zero subsidy has enabled lending to grow and not be interrupted by funding lapses. The 2007 Budget builds upon this success by proposing authority for \$17.5 billion of 7(a) lending, with borrowers covering the costs of administering Federal guarantees on business loans greater than \$1 million. This will make these loans self-financing and further reduce the need for taxpayer support.

Since 2001, the demand for SBA loans has grown significantly. At the same time, the Administration has maintained budgetary discipline in delivering small business services. During the period there was a 24-percent decrease in agency staffing but a rapid increase in agency services. For example, lending under the flagship 7(a) program increased from 43,000 to 89,000 loans per year, yet the cost of providing these services has dropped dramatically. In 2001, SBA programs cost \$1 billion in appropriations. The 2007 Budget will provide expanded services while only costing taxpayers \$624 million, a 38-percent cost decrease.

The Budget supports \$3 billion in new guaranteed venture capital investments for small businesses through the Small Business Investment Company Debenture program. However, with realized and projected losses exceeding \$2 billion in the Participating Securities program, which provided equity-type venture capital financing, the 2007 Budget does not support new guaranteed investments in this program. Rather than make new investments through this program, SBA will continue to improve efforts to monitor and mitigate risk in the outstanding \$6 billion Participating Securities portfolio.



As a result of the unprecedented damage caused in the Gulf area from Hurricanes Katrina and Rita, SBA received a record number of disaster loan applications.

The 2007 Budget proposes to continue providing preferential loan terms to victims of disasters. However, to contain the escalating costs of the loans, the Budget proposes to adopt graduated interest rates for the Disaster Loan program beginning with disaster events occurring in 2007. During the first five years after a disaster, interest rates will remain deeply subsidized, as they are currently structured, although interest rate caps would be eliminated. Thereafter, rates would graduate to those of a comparable-maturity Treasury instrument. This structure would continue to provide borrowers with deep interest subsidies when they need them most—immediately after a disaster—and after five years the subsidies

would be reduced for the remainder of the loan period. This proposal would not affect loans made for recovery from disasters occurring before 2007.

Consistent with the President's Management Agenda, SBA is administering its programs more efficiently to improve customer service and reduce program costs. Building upon its success in consolidating loan liquidation functions from 69 district offices to a single location, SBA is also working

to consolidate loan guarantee processing and other management functions. While providing administrative cost savings, these changes ensure that loans are managed more consistently and efficiently. The consolidation of loan liquidation activities in 2004 reduced agency costs for this function from \$32 million in 2003 to \$7 million in 2005.

SBA seeks to target assistance more effectively to credit-worthy borrowers who would not get loans from the commercial markets in the absence of a Government guarantee. SBA is actively encouraging financial institutions to increase lending to start-up firms, low-income entrepreneurs, and borrowers in search of financing below \$150,000. Preliminary evidence shows that SBA's outreach for the 7(a) program has been successful. Average loan size has decreased from \$232,000 in 2001 to \$160,000 in 2005, while the number of small businesses served has more than doubled during the same time.











SBA has also begun monitoring and managing its portfolio risk through the Loan Monitoring System. The implementation of this system enables the Agency to track the performance of lenders relative to the credit scores of borrowers in their guaranteed loan portfolio. This provides SBA with a tool to identify lenders that pose the greatest risk to Federal taxpayers and to suggest intervention when necessary to avoid further risk.

The 2007 Budget repropose termination of the Microloan program, which has been excessively expensive relative to other programs. The 7(a) program is capable of serving similar clientele through the Community Express program at a much lower cost to taxpayers.





The Budget requests additional administrative funding for SBA's critical investments in information technology. New investments include web-based data reporting and processing systems, which will expedite and facilitate the use of agency programs and allow growth in program usage while maintaining streamlined staffing levels.

Update on the President's Management Agenda

The table below provides an update on SBA's implementation of the President's Management Agenda as of December 31, 2005.

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
Status					
Progress					
To improve service to the public, SBA assessed its staff's skills, contracted for training, increased accountability of managers, and conducted competitive sourcing competitions in 2005. As the leader of the Business Gateway, SBA launched the website <i>www.Business.gov</i> , which helps small business owners easily find, understand, and comply with Federal regulations. SBA is working with other Federal agencies to reduce the paperwork burden on businesses. In the area of Budget Performance and Integration, SBA has also made progress in developing new estimation models to improve financial management and more accurately measure the cost of providing credit to small businesses. In 2005, SBA received an unqualified opinion on its financial statements, although one repeat material condition remained.					

RESTRAINING SPENDING AND MANAGING FOR RESULTS—Continued

Initiative	Status	Progress
Faith-Based and Community Initiative		
Eliminating Improper Payments		
<p>The Agency established a faith-based center that works with community and faith-based groups to ensure access to SBA technical assistance grants. SBA continues to assess its loan programs for improper payments, particularly its 7(a) program.</p> <p>SBA will participate in the new credit initiative because it has a portfolio of \$3.6 billion in outstanding direct loans, \$63 billion in outstanding loan guarantees, and \$681 million in delinquent debt. This initiative will be included in the scorecard beginning in the second quarter of 2006. SBA is developing new strategies to improve performance and outcomes in these areas. The Agency has also implemented a best-practices lender monitoring system that tracks performance through the use of credit scores.</p>		

Small Business Administration
(In millions of dollars)

	2005 Actual	Estimate	
		2006	2007
Spending			
Discretionary Budget Authority:			
Salaries and Expenses.....	318	306	291
Business Loans Administration	126	121	121
Disaster Loans.....	111	—	195
Office of the Inspector General	13	14	14
Surety Bond Guarantees Revolving Fund.....	3	3	3
Unrequested projects.....	39	90	—
Total, Discretionary budget authority	610	534	624
<i>Memorandum: Budget authority from enacted supplementals</i>	<i>929</i>	<i>446</i>	<i>—</i>
Total, Discretionary outlays	850	1,744	630
Total, Mandatory outlays	1,652	—556	—25
Total, Outlays	2,502	1,188	605
Credit activity			
Direct Loan Disbursements:			
Direct Disaster Loans.....	995	3,532	693
Direct Business Loans.....	19	18	5
Total, Direct loan disbursements	1,014	3,550	698
Guaranteed Loan Commitments:			
Guaranteed Business Loans.....	18,551	24,490	22,940
Total, Guaranteed loan commitments	18,551	24,490	22,940

SMALL BUSINESS ADMINISTRATION

For 2007, the Budget requests \$624 million in new budget authority for the Small Business Administration (SBA). SBA's continuing operations will provide more than \$28 billion in new loans to small businesses, funding for non-credit programs, and funding for the disaster loan program.

Federal Funds

General and special funds:

SALARIES AND EXPENSES

For necessary expenses, not otherwise provided for, of the Small Business Administration as authorized by Public Law [108-447] 109-108, including hire of passenger motor vehicles as authorized by 31 U.S.C. 1343 and 1344, and not to exceed \$3,500 for official reception and representation expenses. [S313,029,000] \$303,550,000. *Provided*, That the Administrator is authorized to charge fees to cover the cost of publications developed by the Small Business Administration, and certain loan [servicing] program activities, including fees authorized by section 5(b) of the Small Business Act. *Provided further*, That, notwithstanding 31 U.S.C. 3302, revenues received from all such activities shall be credited to this account, to [be] remain available until expended, for carrying out these purposes without further appropriations. *Provided further*, That the sum herein appropriated from the general fund shall be reduced up to the amount of \$7,000,000, as the fees assessed and collected under the authority of section 5(b)(12)(E) of the Small Business Act are received, and any fees received in excess of \$7,000,000 shall be available until expended. *Provided further*, That [S89,000,000] \$87,120,000 shall be available to fund grants for performance in fiscal year [2006] 2007 or fiscal year [2007] 2008 as authorized. *Provided further*, That the Small Business Administration is authorized to award grants under the Women's Business Center Sustainability Pilot Program established by section 4(a) of Public Law 106-165 (15 U.S.C. 656(i)). *Provided further*, That, of the amounts provided for Women's Business Centers, not less than 41 percent shall be available to continue Women's Business Centers in sustainability status].

(RESCISSIOIN)

Of the unobligated balances available under this heading, [S3,000,000] \$6,100,000 are rescinded. (Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006.)

Program and Financing (in millions of dollars)

Identification code 73-0100-0-1-376	2005 actual	2006 est.	2007 est.
Obligations by program activity:			
00.01 Executive Direction	42	42	42
00.02 Capital Access	41	41	44
00.03 Gov. Contracting/ Bus. Development	19	19	21
00.04 Entrepreneurial Development	6	6	8
00.05 Management & Administration	15	15	18
00.06 Office of Chief Information Officer	25	26	32
00.07 Regional & District Offices	124	124	127
00.08 Agency Wide Costs	48	47	48
00.09 Non Credit Programs	135	127	106
00.10 Congressional Initiatives	39	30	.....
00.12 Disaster	223	437	105
00.00 Reimbursable program	9	12	11
10.00 Total new obligations	726	986	562
Budgetary resources available for obligation:			
21.40 Unobligated balance carried forward, start of year	40	349	84
22.00 New budget authority (gross)	1,034	721	556
22.10 Resources available from recoveries of prior year obligations	2	.....	.....
23.90 Total budgetary resources available for obligation	1,076	1,070	640
23.95 Total new obligations	-726	-986	-562
23.96 Unobligated balance expiring or withdrawn	-1	.....	.....

24.40 Unobligated balance carried forward, end of year	349	84	78
New budget authority (gross), detail:			
Discretionary:			
40.00 Appropriation	362	404	297
40.33 Appropriation permanently reduced (P.L. 109-148)	-4	.....	.....
40.35 Appropriation permanently reduced	-5	-1	.....
40.36 Unobligated balance permanently reduced .....	.....	-3	-6
43.00 Appropriation (total discretionary)	357	396	291
Spending authority from offsetting collections:			
68.00 Offsetting collections (cash)	677	139	151
68.00 Offsetting collections (cash) .....	.....	186	114
68.90 Spending authority from offsetting collections (total discretionary)	677	325	265
70.00 Total new budget authority (gross)	1,034	721	556
Change in obligated balances:			
72.40 Obligated balance, start of year	287	303	214
73.10 Total new obligations	726	986	562
73.20 Total outlays (gross)	-685	-1,075	-602
73.40 Adjustments in expired accounts (net)	-23	.....	.....
73.45 Recoveries of prior year obligations	-2	.....	.....
74.40 Obligated balance, end of year	303	214	174
Outlays (gross), detail:			
86.90 Outlays from new discretionary authority	520	543	428
86.93 Outlays from discretionary balances	165	532	174
87.00 Total outlays (gross)	685	1,075	602
Offsets:			
Against gross budget authority and outlays:			
Offsetting collections (cash) from:			
88.00 Payments from business loan program account	-125	-124	-126
88.00 Payments from disaster loan program account	-539	-186	-114
88.00 Federal sources	-10	-12	-11
88.00 Business Loan Fees .....	.....	.....	-7
88.40 Non-Federal sources	-3	-3	-7
88.90 Total, offsetting collections (cash)	-677	-325	-265
Net budget authority and outlays:			
89.00 Budget authority	357	396	291
90.00 Outlays	8	750	337

The appropriation for this account is necessary to cover the administrative expenses for SBA headquarters and the field and for non-credit programs. Appropriations for the administration of the Disaster direct loan and business loan programs are merged with this account. In addition, this account funds technical assistance grant programs.

Object Classification (in millions of dollars)

Identification code 73-0100-0-1-376	2005 actual	2006 est.	2007 est.
Direct obligations:			
Personnel compensation:			
11.1 Full-time permanent	166	161	170
11.3 Other than full-time permanent	11	10	10
11.5 Other personnel compensation	3	3	3
11.9 Total personnel compensation	180	174	183
12.1 Civilian personnel benefits	54	47	47
21.0 Travel and transportation of persons	4	5	5
23.1 Rental payments to GSA	32	35	35
23.3 Communications, utilities, and miscellaneous charges	5	6	7
24.0 Printing and reproduction	1	1	1
25.2 Other services	39	44	51
25.3 Other purchases of goods and services from Government accounts (Disaster Administrative Expenses)	223	437	105

General and special funds—Continued

SALARIES AND EXPENSES—Continued
(RESCISSON)—Continued

Object Classification (in millions of dollars)—Continued

Identification code 73-0100-0-1-376	2005 actual	2006 est.	2007 est.
26.0 Supplies and materials	2	3	4
31.0 Equipment	3	5	7
41.0 Grants, subsidies, and contributions	174	217	106
99.0 Direct obligations	717	974	551
99.0 Reimbursable obligations	9	12	11
99.9 Total new obligations	726	986	562

Personnel Summary

Identification code 73-0100-0-1-376	2005 actual	2006 est.	2007 est.
Direct:			
1001 Civilian full-time equivalent employment	4,030	5,122	2,860
2001 Civilian full-time equivalent employment	11	11	8

OFFICE OF INSPECTOR GENERAL

For necessary expenses of the Office of Inspector General in carrying out the provisions of the Inspector General Act of 1978, [§13,900,000] \$14,355,000. (*Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006.*)

[For an additional amount for the "Office of Inspector General" for necessary expenses related to the consequences of hurricanes in the Gulf of Mexico in calendar year 2005, \$5,000,000, to remain available until expended: *Provided*, That the amount provided under this heading is designated as an emergency requirement pursuant to section 402 of H. Con. Res. 95 (109th Congress), the concurrent resolution on the budget for fiscal year 2006.] (*Emergency Supplemental Appropriations Act to Address Hurricanes in the Gulf of Mexico and Pandemic Influenza, 2006.*)

Program and Financing (in millions of dollars)

Identification code 73-0200-0-1-376	2005 actual	2006 est.	2007 est.
Obligations by program activity:			
00.01 Audit	5	7	6
00.02 Investigations	6	8	7
00.03 Management Policy	1	1	1
00.04 General Office/Legal Counsel	1	1	1
10.00 Total new obligations	13	17	15
Budgetary resources available for obligation:			
21.40 Unobligated balance carried forward, start of year			4
22.00 New budget authority (gross)	14	21	15
23.90 Total budgetary resources available for obligation	14	21	19
23.95 Total new obligations	-13	-17	-15
24.40 Unobligated balance carried forward, end of year		4	4
New budget authority (gross), detail:			
Discretionary:			
40.00 Appropriation	13	14	14
40.30 Appropriations adjusted pursuant to PL 109-148 (*)		5	
43.00 Appropriation (total discretionary)	13	19	14
68.00 Spending authority from offsetting collections: Offsetting collections (cash)	1	2	1
70.00 Total new budget authority (gross)	14	21	15
Change in obligated balances:			
72.40 Obligated balance, start of year	2	2	2
73.10 Total new obligations	13	17	15
73.20 Total outlays (gross)	-14	-17	-16
74.40 Obligated balance, end of year	2	2	1

Outlays (gross), detail:			
86.90 Outlays from new discretionary authority	13	16	14
86.93 Outlays from discretionary balances	1	1	2
87.00 Total outlays (gross)	14	17	16

Offsets:

Against gross budget authority and outlays:			
88.00 Offsetting collections (cash) from: Payments from disaster loan program account	-1	-2	-1

Net budget authority and outlays:			
89.00 Budget authority	13	19	14
90.00 Outlays	13	15	15

The Budget proposes \$14.3 million in new budget authority and \$0.5 million transferred from the Disaster Loans Program account for a total of \$14.9 million for the Office of Inspector General (OIG) for 2007. This appropriation provides funds for agency-wide audit, investigative, and related functions to promote economy and efficiency in agency operations and to prevent and detect waste, fraud, and abuse.

Object Classification (in millions of dollars)

Identification code 73-0100-0-1-376	2005 actual	2006 est.	2007 est.
Direct obligations:			
Personnel compensation:			
11.1 Full-time permanent	8	9	9
11.5 Other personnel compensation	1	1	1
11.9 Total personnel compensation	9	10	10
12.1 Civilian personnel benefits	2	2	2
25.2 Other services	1	4	2
99.0 Direct obligations	12	16	14
99.0 Reimbursable obligations	1	1	1
99.9 Total new obligations	13	17	15

Personnel Summary

Identification code 73-0200-0-1-376	2005 actual	2006 est.	2007 est.
Direct:			
1001 Civilian full-time equivalent employment	95	107	107

Public enterprise funds:

SURETY BOND GUARANTEES REVOLVING FUND

For additional capital for the Surety Bond Guarantees Revolving Fund, authorized by the Small Business Investment Act of 1958, as amended, [§2,861,000] \$2,970,000, to remain available until expended. (*Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006.*)

Program and Financing (in millions of dollars)

Identification code 73-4156-0-3-376	2005 actual	2006 est.	2007 est.
Obligations by program activity:			
09.01 Reimbursable obligations	8	10	10
10.00 Total new obligations (subject class 42.0)	8	10	10
Budgetary resources available for obligation:			
21.40 Unobligated balance carried forward, start of year	22	23	21
22.00 New budget authority (gross)	9	8	9
23.90 Total budgetary resources available for obligation	31	31	30
23.95 Total new obligations	-8	-10	-10
24.40 Unobligated balance carried forward, end of year	23	21	20
New budget authority (gross), detail:			
Discretionary:			
40.00 Appropriation	3	3	3
68.00 Spending authority from offsetting collections: Offsetting collections (cash)	6	5	6
70.00 Total new budget authority (gross)	9	8	9

SMALL BUSINESS ADMINISTRATION

Federal Funds—Continued

1093

Change in obligated balances:			
72.40 Obligated balance, start of year	1	2	3
73.10 Total new obligations	8	10	10
73.20 Total outlays (gross)	-7	-9	-10
74.40 Obligated balance, end of year	2	3	3
Outlays (gross), detail:			
86.90 Outlays from new discretionary authority	6	8	9
86.93 Outlays from discretionary balances	1	1	1
87.00 Total outlays (gross)	7	9	10
Offsets:			
Against gross budget authority and outlays:			
88.40 Offsetting collections (cash) from: Non-Federal sources	-6	-5	-6
Net budget authority and outlays:			
89.00 Budget authority	3	3	3
90.00 Outlays	1	4	4

SBA is authorized to issue bond guarantees to surety companies for construction, service, and supply contracts that do not exceed \$2,000,000 and to reimburse these sureties up to 90 percent of the losses sustained if the contractor defaults. SBA's guarantees provide the incentive necessary for sureties to issue bonds to small contractors who could not otherwise secure them and compete in the contracting industry.

In 2007, the Budget proposes a \$1.7 billion program level that is anticipated to be sufficient to accommodate demand from prior-approval and preferred sureties.

Balance Sheet (in millions of dollars)

Identification code 73-4156-0-3-376	2004 actual	2005 actual
ASSETS:		
Federal assets:		
1101 Fund balances with Treasury	23	25
Investments in US securities:		
1106 Receivables, net	5	4
1999 Total assets	28	29
LIABILITIES:		
2201 Non-Federal liabilities: Accounts payable	21	25
2999 Total liabilities	21	25
NET POSITION:		
3100 Appropriated capital	1	1
3300 Cumulative results of operations	6	3
3999 Total net position	7	4
4999 Total liabilities and net position	28	29

Credit accounts:

BUSINESS LOANS PROGRAM ACCOUNT
(INCLUDING TRANSFERS OF FUNDS)

For the cost of direct loans, \$1,300,000, to remain available until expended: *Provided*, That such costs, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974: *Provided further*, That subject to section 502 of the Congressional Budget Act of 1974, during fiscal year [2006] 2007 commitments to guarantee loans under section 503 of the Small Business Investment Act of 1958, shall not exceed [the levels established under 20(e)(1)(B)(ii) of the Small Business Act] \$7,500,000,000: *Provided [further]*, That during fiscal year [2006] 2007 commitments for general business loans authorized under section 7(a) of the Small Business Act, shall not exceed [the levels established under 20(e)(1)(B)(i) of the Small Business Act] \$17,500,000,000: *Provided further*, That during fiscal year [2006] 2007 commitments to guarantee loans for debentures under section 303(b) of the Small Business Investment Act of 1958, shall not exceed \$3,000,000,000: *Provided further*, That during fiscal year [2006] 2007 guarantees of trust certificates authorized by section 5(g) of the Small Business Act shall not exceed a principal amount of \$12,000,000,000.

In addition, for administrative expenses to carry out the direct and guaranteed loan programs, [\$125,307,000] \$126,136,000, which may be transferred to and merged with the appropriations for Salaries and Expenses: *Provided*, That, of the funds previously made available under Public Law 105-135, section 507(g), for the Delta Loan program, up to \$500,000 may be transferred to and merged with the appropriation for Salaries and Expenses.

(RESCISSION)

Of the unobligated balances available under this heading, [\$4,000,000] \$5,000,000 are rescinded. (*Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006.*)

Program and Financing (in millions of dollars)

Identification code 73-1154-0-1-376	2005 actual	2006 est.	2007 est.
Obligations by program activity:			
00.01 Direct loan subsidy	2	1	
00.02 Guaranteed loan subsidy	3		
00.05 Reestimate of direct loan		12	
00.06 Interest on direct loan reestimation		14	
00.07 Reestimate of loan guarantee subsidy	1,357	329	
00.08 Interest on reestimates of loan guarantee subsidy	549	50	
00.09 Administrative expenses	125	124	126
10.00 Total new obligations	2,036	530	126
Budgetary resources available for obligation:			
21.40 Unobligated balance carried forward, start of year	101	13	9
22.00 New budget authority (gross)	2,034	526	121
22.10 Resources available from recoveries of prior year obligations	6		
23.90 Total budgetary resources available for obligation	2,141	539	130
23.95 Total new obligations	-2,036	-530	-126
23.98 Unobligated balance expiring or withdrawn	-92		
24.40 Unobligated balance carried forward, end of year	13	9	4
New budget authority (gross), detail:			
Discretionary:			
40.00 Appropriation	128	127	126
40.33 Appropriation permanently reduced (P.L. 109-148)		-1	
40.35 Appropriation permanently reduced	-2	-1	
40.36 Unobligated balance permanently reduced		-4	-5
43.00 Appropriation (total discretionary)	126	121	121
Mandatory:			
60.00 Appropriation	1,906	405	
Discretionary:			
88.00 Spending authority from offsetting collections: Offsetting collections (cash)	2		
70.00 Total new budget authority (gross)	2,034	526	121
Change in obligated balances:			
72.40 Obligated balance, start of year	63	19	18
73.10 Total new obligations	2,036	530	126
73.20 Total outlays (gross)	-2,071	-531	-121
73.40 Adjustments in expired accounts (net)	-3		
73.45 Recoveries of prior year obligations	-6		
74.40 Obligated balance, end of year	19	18	23
Outlays (gross), detail:			
86.90 Outlays from new discretionary authority	128	121	121
86.93 Outlays from discretionary balances	37	5	
86.97 Outlays from new mandatory authority	1,906	405	
87.00 Total outlays (gross)	2,071	531	121
Offsets:			
Against gross budget authority and outlays:			
88.40 Offsetting collections (cash) from: Non-Federal sources	-3		
Against gross budget authority only:			
88.96 Portion of offsetting collections (cash) credited to expired accounts	1		
Net budget authority and outlays:			
89.00 Budget authority	2,032	526	121
90.00 Outlays	2,069	531	121

1094

Federal Funds—Continued

THE BUDGET FOR FISCAL YEAR 2007

Credit accounts—Continued

BUSINESS LOANS PROGRAM ACCOUNT—Continued

(RESCISSION)—Continued

Summary of Loan Levels, Subsidy Budget Authority and Outlays by Program (in millions of dollars)

Identification code 73-154-0-1-376	2005 actual	2006 est.	2007 est.
Direct loan levels supportable by subsidy budget authority:			
115001 Micro loans	18	20	
115901 Total direct loan levels	18	20	
Direct loan subsidy (in percent):			
132001 Micro loans	10.25	7.17	0.00
132901 Weighted average subsidy rate	10.25	7.17	0.00
Direct loan subsidy budget authority:			
133001 Micro loans	2	1	
133901 Total subsidy budget authority	2	1	
Direct loan subsidy outlays:			
134001 Micro loans	2	1	
134901 Total subsidy outlays	2	1	
Direct loan upward reestimate subsidy budget authority:			
135001 Misc. loans		26	
135901 Total upward reestimate budget authority		26	
Direct loan downward reestimate subsidy budget authority:			
137001 Misc. loans		-42	
137901 Total downward reestimate budget authority		-42	
Guaranteed loan levels supportable by subsidy budget authority:			
215002 General business — 7(a)	14,284	17,000	17,500
215004 Section 504	5,000	7,500	7,500
215006 SBIC debentures	255	3,000	3,000
215010 Secondary market guarantee	10,000	12,000	12,000
215011 General business 7(a) prior		300	
215901 Total loan guarantee levels	29,539	39,500	40,000
Guaranteed loan subsidy (in percent):			
232002 General business — 7(a)	0.00	0.00	0.00
232004 Section 504	0.00	0.00	0.00
232006 SBIC debentures	0.00	0.00	0.00
232010 Secondary market guarantee	0.00	0.00	0.00
232011 General business 7(a) prior	0.01	0.00	0.00
232901 Weighted average subsidy rate	0.00	0.00	0.00
Guaranteed loan subsidy budget authority:			
233002 General business — 7(a)			
233004 Section 504			
233006 SBIC debentures			
233010 Secondary market guarantee			
233011 General business 7(a) prior	3		
233901 Total subsidy budget authority	3		
Guaranteed loan subsidy outlays:			
234002 General business — 7(a)	32		
234004 Section 504			
234006 SBIC debentures			
234010 Secondary market guarantee			
234011 General business 7(a) prior	3		
234901 Total subsidy outlays	35		
Guaranteed loan upward reestimate subsidy budget authority:			
235001 Microloan guarantees			
235002 General business 7(a)	556	99	
235003 General business — 7(a)-terrorist response	221		
235004 Section 504			
235005 Section 504-DELTA			
235006 SBIC debentures	117	64	
235007 SBIC participating securities	965	153	
235008 New Market Venture Capital		1	
235009 General business 7(a)-DELTA		8	
235010 Secondary market guarantee	44	53	
235011 General business 7(a) prior			
235012 SBIC 301(d) Guarantee			
235013 502 Local development companies		1	
235901 Total upward reestimate budget authority	1,907	379	

Guaranteed loan downward reestimate subsidy budget authority:

237001 Microloan guarantees		-1	
237002 General business 7(a)	-135	-156	
237003 General business — 7(a)-terrorist response	-13	-7	
237004 Section 504	-98	-202	
237005 Section 504 -DELTA		-18	
237006 SBIC debentures	-178	-48	
237007 SBIC participating securities	-46	-499	
237008 New Market Venture Capital			
237009 General business 7(a)-DELTA		-1	
237010 Secondary market guarantee		-4	
237011 General business 7(a) Prior			
237012 SBIC 301(d) Guarantee		-10	
237013 502 Local development companies		-4	
237901 Total downward reestimate subsidy budget authority	-470	-950	

Administrative expense data:

351001 Budget authority	125	127	126
359001 Outlays from new authority	125	124	120

As required by the Federal Credit Reform Act of 1990, as amended, this account records, for this program, the subsidy costs associated with the direct loans obligated and loan guarantees committed in 1992 and beyond (including modifications of direct loans or loan guarantees that resulted from obligations or commitments in any year), as well as administrative expenses of this program. The subsidy amounts are estimated on a present value basis; the administrative expenses are estimated on a cash basis.

For 2007, the Budget proposes \$126.1 million in new budget authority for the Business Loans Program account, of which \$7 million will be repaid through administrative fee collections on loans over \$1 million. No appropriations are required to cover loan subsidy as fees are sufficient to offset losses.

The Section 7(a) program provides general business credit assistance. The requested guaranteed loan program level for 2007 is \$17.5 billion. The Section 504 Certified Development Company program is for long-term fixed rate financing and the requested guaranteed loan program level is \$7.5 billion in 2007. The Small Business Investment Company (SBIC) program provides credit to support venture capital investments. The Budget proposes a program level of \$3 billion for SBIC Debentures.

As part of the Secondary Market Guarantee (SMG), SBA's fiscal agent pools the guaranteed portion of 7(a) loans and sells the securities to investors. This mechanism provides liquidity to lenders participating in the 7(a) loan program. For FY 2007, the Budget proposes a program level of \$12 billion in such securities. In addition, the Budget proposes fee authority for the program to simplify program management.

Object Classification (in millions of dollars)

Identification code 73-154-0-1-376	2005 actual	2006 est.	2007 est.
25.2 Other services	125	124	126
41.0 Grants, subsidies, and contributions	1,911	496	
99.9 Total new obligations	2,036	530	126

BUSINESS DIRECT LOAN FINANCING ACCOUNT

Program and Financing (in millions of dollars)

Identification code 73-4148-0-3-376	2005 actual	2006 est.	2007 est.
Obligations by program activity:			
00.01 Direct loans	18	20	
00.02 Interest on Treasury borrowing	10	7	
00.91 Direct obligations—Subtotal	28	27	
08.02 Payment of downward reestimate to a receipt account		28	
08.04 Payment of interest on downward reestimate to a receipt account		14	
08.91 Direct obligations—Subtotal		42	

SMALL BUSINESS ADMINISTRATION

Federal Funds—Continued

1095

10.00	Total new obligations	28	69	
Budgetary resources available for obligation:				
21.40	Unobligated balance carried forward, start of year	73	41	
22.00	New financing authority (gross)	46	74	12
22.10	Resources available from recoveries of prior year obligations	7		
22.60	Portion applied to repay debt	-57	-46	-12
23.90	Total budgetary resources available for obligation	69	69	
23.95	Total new obligations	-28	-69	
24.40	Unobligated balance carried forward, end of year	41		
New financing authority (gross), detail:				
Mandatory:				
67.10	Authority to borrow	19	21	
Spending authority from offsetting collections:				
Discretionary:				
68.00	Offsetting collections (cash)	28	53	12
68.10	Change in uncollected customer payments from Federal sources (unexpired)	-1		
68.90	Spending authority from offsetting collections (total discretionary)	27	53	12
70.00	Total new financing authority (gross)	46	74	12
Change in obligated balances:				
72.40	Obligated balance, start of year	29	23	70
73.10	Total new obligations	28	69	
73.20	Total financing disbursements (gross)	-28	-22	-10
73.45	Recoveries of prior year obligations	-7		
74.00	Change in uncollected customer payments from Federal sources (unexpired)	1		
74.40	Obligated balance, end of year	23	70	60
87.00	Total financing disbursements (gross)	28	22	10
Offsets:				
Against gross financing authority and financing disbursements:				
Offsetting collections (cash) from:				
Federal sources: Payments from program account:				
88.00	Upward reestimate	-2	-2	
88.00	Interest on reestimates		-14	
88.25	Interest on uninvested funds	-5	-6	
88.40	Repayments of principal, net	-21	-20	-11
88.40	Other income			-1
88.90	Total offsetting collections (cash)	-28	-54	-12
Against gross financing authority only:				
88.95	Change in receivables from program accounts	1		
88.96	Portion of offsetting collections (cash) credited to expired accounts		1	
Net financing authority and financing disbursements:				
89.00	Financing authority	19	21	
90.00	Financing disbursements		-32	-2
Status of Direct Loans (in millions of dollars)				
Identification code 73-4148-9-3-376				
		2005 actual	2005 est.	2007 est.
Position with respect to appropriations act limitation on obligations:				
1111	Limitation on direct loans	18	20	
1150	Total direct loan obligations	18	20	
Cumulative balance of direct loans outstanding:				
1210	Outstanding, start of year	132	134	134
1231	Disbursements: Direct loan disbursements	19	18	5
1251	Repayments: Repayments and prepayments	-17	-15	-12
1263	Write-offs for default: Direct loans		-3	-2
1290	Outstanding, end of year	134	134	125

As required by the Federal Credit Reform Act of 1990, as amended, this non-budgetary account records all cash flows to and from the Government resulting from direct loans obligated in 1992 and beyond (including modifications of direct loans that resulted from obligations in any year). The

amounts in this account are a means of financing and are not included in the budget totals.

Balance Sheet (in millions of dollars)

Identification code 73-4148-9-3-376			
	2004 actual	2005 actual	
ASSETS:			
Federal assets:			
1101	Fund balances with Treasury	102	64
Investments in US securities:			
1106	Receivables, net		24
1206	Non-Federal assets: Receivables, net	2	1
Net value of assets related to post-1991 direct loans receivable:			
1401	Direct loans receivable, gross	132	134
1405	Allowance for subsidy cost (-)	-42	-24
1499	Net present value of assets related to direct loans	90	110
1999	Total assets	194	199
LIABILITIES:			
Federal liabilities:			
2103	Debt	191	154
2105	Other		43
2207	Non-Federal liabilities: Other	3	2
2999	Total liabilities	194	199
4999	Total liabilities and net position	194	199

BUSINESS GUARANTEED LOAN FINANCING ACCOUNT

Program and Financing (in millions of dollars)

Identification code 73-4149-9-3-376			
	2005 actual	2005 est.	2007 est.
Obligations by program activity:			
00.01	Default claims	1,547	1,660
00.02	Interest on Treasury borrowing	127	275
00.05	Other expenses	131	120
00.91	Direct obligations—Subtotal	1,805	2,055
08.02	Payment of downward reestimate to receipt account	323	719
08.04	Payment of interest on downward reestimate to receipt account	147	231
08.91	Direct obligations—Subtotal	470	950
10.00	Total new obligations	2,275	3,005
Budgetary resources available for obligation:			
21.40	Unobligated balance carried forward, start of year	3,072	2,514
22.00	New financing authority (gross)	3,713	2,834
22.10	Resources available from recoveries of prior year obligations	10	
22.60	Portion applied to repay debt	-2,006	
23.90	Total budgetary resources available for obligation	4,789	5,348
23.95	Total new obligations	-2,275	-3,005
24.40	Unobligated balance carried forward, end of year	2,514	2,343
New financing authority (gross), detail:			
Mandatory:			
67.10	Authority to borrow	470	950
Spending authority from offsetting collections:			
Discretionary:			
68.00	Offsetting collections (cash)	3,288	1,884
68.10	Change in uncollected customer payments from Federal sources (unexpired)	-45	
68.90	Spending authority from offsetting collections (total discretionary)	3,243	1,884
70.00	Total new financing authority (gross)	3,713	2,834
Change in obligated balances:			
72.40	Obligated balance, start of year	-39	16
73.10	Total new obligations	2,275	3,005
73.20	Total financing disbursements (gross)	-2,255	-2,750
73.45	Recoveries of prior year obligations	-10	
74.00	Change in uncollected customer payments from Federal sources (unexpired)	45	

1096

Federal Funds—Continued

THE BUDGET FOR FISCAL YEAR 2007

Credit accounts—Continued**BUSINESS GUARANTEED LOAN FINANCING ACCOUNT—Continued****Program and Financing (in millions of dollars)—Continued**

Identification code 73-4149-0-3-376	2005 actual	2006 est.	2007 est.
74.00 Obligated balance, end of year	16	271	86
97.00 other	2,255	2,750	2,100
Offsets:			
Against gross financing authority and financing disbursements:			
Offsetting collections (cash) from:			
88.00 Payments from program account	-35	-329	
88.00 Upward reestimate	-1,357	-50	
88.00 Interest on reestimate	-550	-50	
88.00 Other			
88.25 Interest on uninvested funds	-170	-130	-130
88.40 Fees	-593	-700	-725
88.40 Recoveries	-546	-650	-750
88.40 other	-38	-25	-20
88.50 Total, offsetting collections (cash)	-3,289	-1,884	-1,625
Against gross financing authority only:			
88.95 Change in receivables from program accounts	45		
88.96 Portion of offsetting collections (cash) credited to expired accounts	1		
Net financing authority and financing disbursements:			
89.00 Financing authority	470	950	300
90.00 Financing disbursements	-1,033	886	475

Status of Guaranteed Loans (in millions of dollars)

Identification code 73-4149-0-3-376	2005 actual	2006 est.	2007 est.
Position with respect to appropriations act limitation on commitments:			
21.11 Limitation on guaranteed loans made by private lenders	29,939	39,500	40,000
21.50 Total guaranteed loan commitments	29,939	39,500	40,000
21.99 Guaranteed amount of guaranteed loan commitments	23,000	29,625	30,400
Cumulative balance of guaranteed loans outstanding:			
22.10 Outstanding, start of year	56,952	72,880	82,670
22.31 Disbursements of new guaranteed loans	18,551	24,490	22,949
22.51 Repayments and prepayments	-11,349	-12,800	-14,700
Adjustments:			
22.61 Terminations for default (that result in loans receivable)	-1,547	-1,900	-2,100
22.64 Other adjustments, net	10,262		
22.90 Outstanding, end of year	72,880	82,670	88,810
Memorandum:			
22.99 Guaranteed amount of guaranteed loans outstanding, end of year	69,726	78,536	84,370
Addendum:			
Cumulative balance of defaulted guaranteed loans that result in loans receivable:			
23.10 Outstanding, start of year	2,769	4,204	5,219
23.31 Disbursements for guaranteed loan claims	1,547	1,900	2,100
23.51 Repayments of loans receivable	-402	-610	-730
23.61 Write-offs of loans receivable	-219	-215	-275
23.64 Other adjustments, net	509		
23.90 Outstanding, end of year	4,204	5,219	6,314

As required by the Federal Credit Reform Act of 1990, as amended, this non-budgetary account records all cash flows to and from the Government resulting from loan guarantees committed in 1992 and beyond (including modifications of loan guarantees that resulted from commitments in any year). The amounts in this account are a means of financing and are not included in the budget totals.

Balance Sheet (in millions of dollars)

Identification code 73-4149-0-3-376	2004 actual	2005 actual
ASSETS:		
Federal assets:		
11.01 Fund balances with Treasury	3,032	2,529

Investments in US securities:		
11.06 Receivables, net	1,763	354
12.06 Non-Federal assets: Receivables, net	57	50
Net value of assets related to post-1991 acquired defaulted guaranteed loans receivable:		
15.01 Defaulted guaranteed loans receivable, gross	2,769	4,204
15.05 Allowance for subsidy cost (-)	-2,459	-3,154
15.99 Net present value of assets related to defaulted guaranteed loans	310	1,065
19.99 Total assets	5,158	3,998
LIABILITIES:		
Federal liabilities:		
21.03 Debt	2,492	956
21.05 Other	488	889
Non-Federal liabilities:		
22.01 Accounts payable	23	31
22.04 Liabilities for loan guarantees	2,125	2,143
22.07 Other	-20	-21
22.99 Total liabilities	5,158	3,998
49.99 Total liabilities and net position	5,158	3,998

BUSINESS LOAN FUND LIQUIDATING ACCOUNT**Program and Financing (in millions of dollars)**

Identification code 73-4154-0-3-376	2005 actual	2006 est.	2007 est.
Obligations by program activity:			
00.01 Interest Expense to Treasury	6	4	3
00.05 Guaranteed loan default claims	5	3	2
00.09 Other expenses	11	7	5
10.00 Total new obligations	22	14	10
Budgetary resources available for obligation:			
21.40 Unobligated balance carried forward, start of year	93	78	
22.00 New budget authority (gross)	115	78	56
22.10 Resources available from recoveries of prior year obligations	2		
22.40 Capital transfer to general fund	-33	-127	-34
22.60 Portion applied to repay debt to FFB	-17	-15	-12
23.90 Total budgetary resources available for obligation	100	14	10
23.95 Total new obligations	-22	-14	-10
24.40 Unobligated balance carried forward, end of year	78		
New budget authority (gross), detail:			
Mandatory:			
60.00 Appropriation	50	30	20
69.00 Spending authority from offsetting collections: Offsetting collections (cash)	65	48	36
70.00 Total new budget authority (gross)	115	78	56
Change in obligated balances:			
72.40 Obligated balance, start of year	15	10	6
73.10 Total new obligations	22	14	10
73.20 Total obligations (gross)	-25	-18	-13
73.45 Recoveries of prior year obligations	-2		
74.40 Obligated balance, end of year	10	6	3
Outlays (gross), detail:			
86.97 Outlays from new mandatory authority	25	18	13
Loan repayments:			
Offsets:			
Against gross budget authority and outlays: Offsetting collections (cash) from:			
Loan repayments:			
88.40 Financing investment programs-principal	-37	-25	-17
88.40 Interest income-Business & investment	-6	-5	-4
88.40 Fees	-1	-1	-1
88.40 Collection on FFB loans	-17	-15	-12
88.40 Other income-both Business and Investment	-4	-2	-2
88.90 Total, offsetting collections (cash)	-65	-48	-36

SMALL BUSINESS ADMINISTRATION

Federal Funds—Continued

1097

Net budget authority and outlays:			
89.00 Budget authority	50	30	20
90.00 Outlays	-40	-30	-23

Status of Direct Loans (in millions of dollars)

Identification code 73-4154-0-3-376	2005 actual	2006 est.	2007 est.
Cumulative balance of direct loans outstanding:			
1210 Outstanding, start of year	4	9	4
1232 Disbursements: Purchase of loans assets from the public	-2	-4	-2
1251 Repayments: Repayments and prepayments			
1263 Write-offs for default	-1		
1264 Direct loans	7		
Other adjustments, net ¹			
1290 Outstanding, end of year	9	4	2
Cumulative balance of direct loans outstanding:			
1210 Outstanding, start of year	57	49	25
1251 Repayments: Repayments and prepayments	-17	-15	-12
1290 Outstanding, end of year	40	25	13

Status of Guaranteed Loans (in millions of dollars)

Identification code 73-4154-0-3-376	2005 actual	2006 est.	2007 est.
Cumulative balance of guaranteed loans outstanding:			
2210 Outstanding, start of year	531	377	268
2251 Repayments and prepayments	-150	-105	-75
2261 Adjustments: Terminations for default that result in loans receivable	-4	-3	-2
2290 Outstanding, end of year	377	268	191
Memorandum:			
2299 Guaranteed amount of guaranteed loans outstanding, end of year	331	214	168
Addendum:			
Cumulative balance of defaulted guaranteed loans that result in loans receivable:			
2310 Outstanding, start of year	79	55	44
2331 Disbursements for guaranteed loan claims	4	3	2
2351 Repayments of loans receivable	-20	-13	-11
2361 Write-offs of loans receivable	-2	-1	-1
2364 Other adjustments, net	-6		
2390 Outstanding, end of year	55	44	34

As required by the Federal Credit Reform Act of 1990, as amended, this account records all cash flows to and from the Government resulting from SBA direct loans obligated and loan guarantees committed prior to 1992. This account is shown on a cash basis. All new activity in this program in 1992 and beyond (including modifications of direct loans or loan guarantees made in any year) is recorded in corresponding program and financing accounts.

Balance Sheet (in millions of dollars)

Identification code 73-4154-0-3-376	2004 actual	2005 actual
ASSETS:		
1101 Federal assets: Fund balances with Treasury	108	88
1206 Non-Federal assets: Receivables, net	8	2
1601 Direct loans, gross	133	104
1604 Direct loans and interest receivable, net	133	104
1699 Value of assets related to direct loans	133	104
1901 Other Federal assets: Other assets	35	35
1999 Total assets	284	229
LIABILITIES:		
Federal liabilities:		
2101 Accounts payable	8	6
2103 Debt	58	41
2105 Other Liabilities	183	156
Non-Federal liabilities:		
2201 Accounts payable	8	4
2207 Other Liabilities	27	22
2999 Total liabilities	284	229

4999 Total liabilities and net position	284	229
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Object Classification (in millions of dollars)

Identification code 73-4154-0-3-376	2005 actual	2006 est.	2007 est.
42.0 Insurance claims and indemnities	16	10	7
43.0 Interest and dividends	6	4	3
99.9 Total new obligations	22	14	10

DISASTER LOANS PROGRAM ACCOUNT

(INCLUDING TRANSFERS OF FUNDS)

[From unobligated balances under this heading, in fiscal year 2006, not to exceed \$9,000,000 may be transferred to and merged with appropriations for Salaries and Expenses for indirect administrative expenses, of which \$1,500,000 is for the Office of Inspector General of the Small Business Administration for audits and reviews of disaster loans and the disaster loan program and shall be transferred to and merged with appropriations for the Office of Inspector General.] For the cost of direct loans authorized by section 7(b) of the Small Business Act, \$85,140,000, to remain available until expended: Provided, That such costs, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974. In addition, for administrative expenses to carry out the direct loan program authorized by section 7(b), of the Small Business Act, \$113,850,000, of which \$495,000 is for the Office of Inspector General of the Small Business Administration for audits and reviews of disaster loans and the disaster loan program and shall be transferred to and merged with appropriations for the Office of Inspector General; of which \$104,445,000 is for direct administrative expenses of loan making and servicing to carry out the direct loan program, to remain available until expended, and which may be transferred and merged with appropriations for Salaries and Expenses; and of which \$8,910,000 is for indirect administrative expenses, which may be transferred and merged with appropriations for Salaries and Expenses.

(RESCISSION)

Of the unobligated balances available under this heading, \$3,700,000 are rescinded. (Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006.)

[INCLUDING TRANSFER OF FUNDS]

[For an additional amount for the "Disaster Loans Program Account" authorized by section 7(b) of the Small Business Act, for necessary expenses related to hurricanes in the Gulf of Mexico in calendar year 2005 and other natural disasters, \$264,500,000, to remain available until expended: Provided, That such costs, including the cost of modifying such loans shall be as defined in section 502 of the Congressional Budget Act of 1974.

In addition, for administrative expenses to carry out the direct loan program authorized by section 7(b), \$176,500,000, to remain available until expended, which may be transferred to and merged with "Salaries and Expenses": Provided, That the amounts provided under this heading are designated as an emergency requirement pursuant to section 402 of H. Con. Res. 95 (109th Congress), the concurrent resolution on the budget for fiscal year 2006: Provided further, That no funds shall be transferred to the appropriation for "Salaries and Expenses" for indirect administrative expenses.] (Emergency Supplemental Appropriations Act to Address Hurricanes in the Gulf of Mexico and Pandemic Influenza, 2006.)

Program and Financing (in millions of dollars)

Identification code 73-1152-0-1-453	2005 actual	2006 est.	2007 est.
Obligations by program activity:			
00.01 Direct loan subsidy	163	571	118
00.05 Upward reestimate of direct loans	223	70	
00.06 Interest on upward reestimates of direct loans	114	10	
00.09 Administrative expense	540	187	114
10.00 Total new obligations	1,040	938	232
Budgetary resources available for obligation:			
21.40 Unobligated balance carried forward, start of year	29	386	4

1098

Federal Funds—Continued

THE BUDGET FOR FISCAL YEAR 2007

Credit accounts—Continued

DISASTER LOANS PROGRAM ACCOUNT—Continued
[(INCLUDING TRANSFER OF FUNDS)]—Continued
Program and Financing (in millions of dollars)—Continued

Identification code 73-1152-0-1-453	2005 actual	2006 est.	2007 est.
22.00 New budget authority (gross)	1,377	521	195
22.10 Resources available from recoveries of prior year obligations	20	35	33
23.90 Total budgetary resources available for obligation	1,426	942	232
23.95 Total new obligations	-1,040	-938	-232
24.40 Unobligated balance carried forward, end of year	386	4	—
New budget authority (gross), detail:			
Discretionary			
40.00 Appropriation	113	—	199
40.00 Appropriation (supplemental)	929	441	—
40.35 Appropriation permanently reduced	-2	—	—
40.36 Unobligated balance permanently reduced	—	—	-4
43.00 Appropriation (total discretionary)	1,040	441	195
Mandatory			
60.00 Appropriation	337	80	—
70.00 Total new budget authority (gross)	1,377	521	195
Change in obligated balances:			
72.40 Obligated balance, start of year	43	59	33
73.10 Total new obligations	1,040	938	232
73.20 Total outlays (gross)	-1,003	-929	-153
73.45 Recoveries of prior year obligations	-20	-35	-33
74.10 Change in uncollected customer payments from Federal sources (repaid)	-1	—	—
74.40 Obligated balance, end of year	59	33	79
Outlays (gross), detail:			
86.90 Outlays from new discretionary authority	640	441	153
86.93 Outlays from discretionary balances	26	408	—
86.97 Outlays from new mandatory authority	337	80	—
87.00 Total outlays (gross)	1,003	929	153
Net budget authority and outlays:			
89.00 Budget authority	1,377	521	195
90.00 Outlays	1,003	929	153

Summary of Loan Levels, Subsidy Budget Authority and Outlays by Program (in millions of dollars)

Identification code 73-1152-0-1-453	2005 actual	2006 est.	2007 est.
Direct loan levels supportable by subsidy budget authority:			
115001 Disaster Loan	1,271	4,587	900
115901 Total direct loan levels	1,271	4,587	900
Direct loan subsidy (in percent):			
132001 Disaster Loan	12.85	14.54	13.18
132901 Weighted average subsidy rate	12.85	14.54	13.18
Direct loan subsidy budget authority:			
133001 Disaster Loan	163	671	118
133901 Total subsidy budget authority	163	671	118
Direct loan subsidy outlays:			
134001 Disaster Loan	127	671	69
134901 Total subsidy outlays	127	671	69
Direct loan upward reestimate subsidy budget authority:			
135001 Disaster Loan	337	80	—
135901 Total upward reestimate budget authority	337	80	—
Direct loan downward reestimate subsidy budget authority:			
137001 Disaster Loan	-70	-14	—
137901 Total downward reestimate budget authority	-70	-14	—
Administrative expense data:			
351001 Budget authority	540	187	114

359001 Outlays from new authority 463 170 81

As required by the Federal Credit Reform Act of 1990, as amended, this account records, for loans made pursuant to Section 7(b) of the Small Business Act, as amended, the subsidy costs associated with the direct loans obligated in 1992 and beyond (including modifications of direct loans or loan guarantees that resulted from obligations or commitments in any year), as well as administrative expenses of this program. The subsidy amounts are estimated on a present value basis; the administrative expenses are estimated on a cash basis.

Disaster loans made pursuant to Section 7(b) of the Small Business Act provide Federal assistance for non-farm, private sector disaster losses. Through this program, SBA helps homeowners, renters, businesses of all sizes, and non-profit organizations pay for the cost of rebuilding and repairing structures damaged by natural disasters. The program is the only form of SBA assistance not limited to small businesses. The program provides subsidized loans of up to 30 years to borrowers who have incurred uninsured physical losses or economic injury as the result of a natural disaster.

The 2007 Budget proposes to continue providing preferential loan terms to victims of disasters. However, to more appropriately tailor Federal assistance to borrower needs and contain the escalating costs of the loans, the Budget proposes to adopt graduated interest rates for the Disaster Loan program. During the first five years after a disaster, interest rates would remain well below the Treasury's interest rate for most borrowers. Thereafter, rates would graduate to a comparable-maturity Treasury instrument. This structure would continue to provide borrowers with deep interest subsidies when they need them most—immediately after a disaster—and after five years, subsidies would continue at a reduced level.

In 2007, the Budget supports \$900 million in loans. The subsidy rate is 13.18 percent.

Object Classification (in millions of dollars)

Identification code 73-1152-0-1-453	2005 actual	2006 est.	2007 est.
25.2 Other services	540	187	114
41.0 Grants, subsidies, and contributions	500	751	118
99.9 Total new obligations	1,040	938	232

DISASTER DIRECT LOAN FINANCING ACCOUNT

Program and Financing (in millions of dollars)

Identification code 73-4150-0-3-453	2005 actual	2006 est.	2007 est.
Obligations by program activity:			
00.01 Direct loans	1,271	4,587	900
00.02 Interest on Treasury borrowing	406	600	300
00.03 Other	26	—	—
00.91 Direct obligations—Subtotal	1,703	5,187	1,200
08.02 Payment of downward reestimate to a receipt account	27	9	—
08.04 Payment of interest on downward reestimate to a receipt account	43	5	—
08.91 Direct obligations—Subtotal	70	14	—
10.00 Total new obligations	1,773	5,201	1,200
Budgetary resources available for obligation:			
21.40 Unobligated balance carried forward, start of year	2,844	2,192	—
22.00 New financing authority (gross)	4,940	5,720	1,491
22.10 Resources available from recoveries of prior year obligations	171	—	—
22.60 Portion applied to repay debt	-2,590	-3,711	-291
23.90 Total budgetary resources available for obligation	4,965	5,201	1,200
23.95 Total new obligations	-1,773	-5,201	-1,200

SMALL BUSINESS ADMINISTRATION

Federal Funds—Continued

1099

24.40	Unobligated balance carried forward, end of year	3,192		
New financing authority (gross), detail:				
Mandatory:				
67.10	Authority to borrow	3,713	3,915	782
Spending authority from offsetting collections:				
Discretionary:				
68.00	Offsetting collections (cash)	1,211	1,805	709
68.10	Change in uncollected customer payments from Federal sources (unapplied)	16		
68.90	Spending authority from offsetting collections (total discretionary)	1,227	1,805	709
70.00	Total new financing authority (gross)	4,940	5,720	1,491
Change in obligated balances:				
72.40	Obligated balance, start of year	293	404	605
73.10	Total new obligations	1,773	5,201	1,200
73.20	Total financing disbursements (gross)	-1,475	-5,000	-993
73.45	Recoveries of prior year obligations	-171		
74.00	Change in uncollected customer payments from Federal sources (unapplied)	-16		
74.40	Obligated balance, end of year	404	605	812
87.00	Total financing disbursements (gross)	1,475	5,000	993

Offsets:				
Against gross financing authority and financing disbursements:				
Offsetting collections (cash) from:				
88.00	Payments from program account	-127	-671	-69
88.00	Upward reestimate	-223	-70	
88.00	Interest on upward reestimate	-114	-10	
88.25	Interest income from Treasury	-269	-500	-275
88.40	Repayments of principal, net	-478	-554	-350
88.40	Collection of misc. receivables		-15	
88.90	Total, offsetting collections (cash)	-1,211	-1,805	-709
Against gross financing authority only:				
88.95	Change in receivables from program accounts	-16		
Net financing authority and financing disbursements:				
89.00	Financing authority	3,713	3,915	782
90.00	Financing disbursements	265	3,195	284

Status of Direct Loans (in millions of dollars)

Identification code 73-4150-0-3-453	2005 actual	2006 est.	2007 est.
Position with respect to appropriations act limitation on obligations:			
1111 Limitation on direct loans			
1131 Direct loan obligations exempt from limitation	1,271	4,587	900
1150 Total direct loan obligations	1,271	4,587	900
Cumulative balance of direct loans outstanding:			
1210 Outstanding, start of year	3,034	3,618	6,534
1231 Disbursements: Direct loan disbursements	995	3,532	693
1251 Repayments: Repayments and prepayments	-372	-354	-350
Write-offs for default:			
1263 Direct loans	-51	-62	-60
1264 Other adjustments, net	12		
1290 Outstanding, end of year	3,618	6,534	6,817

As required by the Federal Credit Reform Act of 1990, as amended, this non-budgetary account records all cash flows to and from the Government resulting from direct loans obligated in 1992 and beyond (including modifications of direct loans that resulted from obligations in any year). The amounts in this account are a means of financing and are not included in the budget totals.

Balance Sheet (in millions of dollars)

Identification code 73-4150-0-3-453	2004 actual	2005 actual	
ASSETS:			
Federal assets:			
1101	Fund balances with Treasury	3,137	3,595
Investments in US securities:			
1106	Interest/Accounts Receivables	375	79

Net value of assets related to post-1991 direct loans receivable:			
1401	Direct loans receivable, gross	3,034	3,618
1405	Allowance for subsidy cost (-)	-613	-689
1439	Net present value of assets related to direct loans	2,421	2,929
1999	Total assets	5,933	6,603
LIABILITIES:			
Federal liabilities:			
2103	Debt	5,863	6,585
2105	Other	68	18
2201	Non-Federal liabilities: Accounts payable	2	
2999	Total liabilities	5,933	6,603
4999	Total liabilities and net position	5,933	6,603

DISASTER LOAN FUND LIQUIDATING ACCOUNT

Program and Financing (in millions of dollars)

Identification code 73-4153-0-3-453	2005 actual	2006 est.	2007 est.
Obligations by program activity:			
01.01 Interest expense to Treasury	2	3	1
01.03 Other expenses		2	2
10.00 Total new obligations	2	5	3
Budgetary resources available for obligation:			
21.40 Unobligated balance carried forward, start of year	61	62	
22.00 New budget authority from offsetting collections (gross)	64	21	12
22.40 Capital transfer to general fund	-61	-78	-9
23.90 Total budgetary resources available for obligation	64	5	3
23.95 Total new obligations	-2	-5	-3
24.40 Unobligated balance carried forward, end of year	62		

New budget authority (gross), detail:				
Mandatory:				
60.00	Appropriation	50	10	5
69.00	Spending authority from offsetting collections: Offsetting collections (cash)	14	11	7
70.00	Total new budget authority (gross)	64	21	12
Change in obligated balances:				
72.40	Obligated balance, start of year	3	2	4
73.10	Total new obligations	2	5	3
73.20	Total outlays (gross)	-3	-3	-2
74.40	Obligated balance, end of year	2	4	5

Outlays (gross), detail:				
85.97	Outlays from new mandatory authority	3	3	2
Offsets:				
Against gross budget authority and outlays:				
Offsetting collections (cash) from:				
88.40	Loan repayments	-8	-9	-5
88.40	Other collection	-6	-2	-2
88.90	Total, offsetting collections (cash)	-14	-11	-7
Net budget authority and outlays:				
89.00	Budget authority	50	10	5
90.00	Outlays	-11	-8	-5

Status of Direct Loans (in millions of dollars)

Identification code 73-4153-0-3-453		2005 actual	2006 est.	2007 est.
Cumulative balance of direct loans outstanding:				
1210	Outstanding, start of year	35	28	21
1251	Repayments: Repayments and prepayments	-8	-6	-5
Write-offs for default:				
1263	Direct loans		-1	
1264	Other adjustments, net	1		1
1290	Outstanding, end of year	28	21	17

1100

Federal Funds—Continued

THE BUDGET FOR FISCAL YEAR 2007

Credit accounts—Continued

DISASTER LOAN FUND LIQUIDATING ACCOUNT—Continued

As required by the Federal Credit Reform Act of 1990, as amended, this account records all cash flows to and from the Government resulting from SBA disaster direct loans obligated prior to 1992. This account is shown on a cash basis. All new activity in this program in 1992 and beyond (including modifications of direct loans or loan guarantees made in any year) is recorded in corresponding program and financing accounts.

Balance Sheet (in millions of dollars)

Identification code 73-4153-0-3-453	2004 actual	2005 actual
ASSETS:		
1101 Federal assets: Fund balances with Treasury	64	64
1601 Direct loans, net	35	28
1699 Value of assets related to direct loans	35	28
1901 Other Federal assets: Other assets	3	
1999 Total assets	102	92
LIABILITIES:		
2101 Federal liabilities:		
2105 Accounts payable	3	2
2105 Other	99	90
2999 Total liabilities	102	92
4999 Total liabilities and net position	102	92

Object Classification (in millions of dollars)

Identification code 73-4153-0-3-453	2005 actual	2006 est.	2007 est.
25.2 Other services		2	2
43.0 Interest and dividends	2	3	1
99.9 Total new obligations	2	5	3

POLLUTION CONTROL EQUIPMENT FUND LIQUIDATING ACCOUNT

Program and Financing (in millions of dollars)

Identification code 73-4147-0-3-376	2005 actual	2006 est.	2007 est.
Obligations by program activity:			
00.01 Disbursement for Guaranty Loan Claim		3	3
10.00 Total new obligations (object class 42.0)		3	3
Budgetary resources available for obligation:			
21.40 Unobligated balance carried forward, start of year	3	3	
22.00 New budget authority (gross)	3	3	3
22.40 Capital transfer to general fund	-3	-3	
23.90 Total budgetary resources available for obligation	3	3	3
23.95 Total new obligations		-3	-3
24.40 Unobligated balance carried forward, end of year	3		
New budget authority (gross), detail:			
60.00 Mandatory:			
60.00 Appropriation	3	3	3
Change in obligated balances:			
73.10 Total new obligations		3	3
73.20 Total outlays (gross)		-3	-3
Outlays (gross), detail:			
86.97 Outlays from new mandatory authority		3	3
Net budget authority and outlays:			
89.00 Budget authority	3	3	3
90.00 Outlays		3	3

Status of Guaranteed Loans (in millions of dollars)

Identification code 73-4147-0-3-376	2005 actual	2006 est.	2007 est.
Cumulative balance of guaranteed loans outstanding:			
2210 Outstanding, start of year	6	4	1
2251 Repayments and prepayments	-2	-2	-1
2251 Adjustments:			
2251 Terminations for default that result in loans receivable		-1	
2264 Other adjustments, net			
2290 Outstanding, end of year	4	1	
Memorandum:			
2299 Guaranteed amount of guaranteed loans outstanding, end of year	4	1	
Addendum:			
Cumulative balance of defaulted guaranteed loans that result in loans receivable:			
2310 Outstanding, start of year	49	20	23
2331 Disbursements for guaranteed loan claims		3	3
2361 Write-offs of loans receivable	-29		
2390 Outstanding, end of year	20	23	26

Public Law 94-305 established this fund to alleviate the adverse impact of pollution regulations on small businesses. As a result of the elimination of tax exempt financing associated with the Pollution Control Guaranteed program, no new activity is anticipated for this program.

Balance Sheet (in millions of dollars)

Identification code 73-4147-0-3-376	2004 actual	2005 actual
ASSETS:		
1101 Federal assets: Fund balances with Treasury		3
1603 Allowance for estimated uncollectible loans and interest (-)		-15
1701 Defaulted guaranteed loans, gross		16
1999 Total assets		19
LIABILITIES:		
2104 Federal liabilities: Resources payable to Treasury		19
2999 Total liabilities		19
4999 Total liabilities and net position		19

ADMINISTRATIVE PROVISION—SMALL BUSINESS ADMINISTRATION

Not to exceed 5 percent of any appropriation made available for the current fiscal year for the Small Business Administration in this Act may be transferred between such appropriations, but no such appropriation shall be increased by more than 10 percent by any such transfers: *Provided*, That any transfer pursuant to this paragraph shall be treated as a reprogramming of funds under section 605 of this Act and shall not be available for obligation or expenditure except in compliance with the procedures set forth in that section. (*Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006.*)

GENERAL FUND RECEIPT ACCOUNTS

(in millions of dollars)

	2005 actual	2006 est.	2007 est.
Offsetting receipts from the public:			
73-272130 Disaster loan program, Downward reestimates of subsidies	70	14	
73-272230 Business loan program, Downward reestimates of subsidies	470	992	
General Fund Offsetting receipts from the public	540	1,006	

Table 7-2. REESTIMATES OF CREDIT SUBSIDIES ON LOANS DISBURSED BETWEEN 1992-2005¹
(Budget authority and outlays, in millions of dollars)

Program	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
DIRECT LOANS:												
Agriculture:												
Agriculture credit insurance fund	28	2	-31	23		331	-656	921	10	-701	-147	-2
Farm storage facility loans								-1	-7	-8	7	-1
Apple loans								-2	1			
Emergency boll weevil loan									1	*	*	3
Agricultural conservation												
Distance learning and telemedicine								1	-1	-1	1	
Rural electrification and telecommunications loans	61	-37	84	-39		-17	-42	101	265	143		
Rural telephone bank	152	46	-73	71		19	-29	-435	-64	-200		
Rural housing insurance fund								-1	-1	-2		
Rural economic development loans								-1	-3	-3		
Rural development loan program	1											
Rural community advancement program ²			8		5		37	3	-1	-84	-34	
P.L. 480		-37	-1				-23	65	-348	33	-43	-239
P.L. 480 Title I food for progress credits	84	-38							-112	-44		
Commerce:												
Fisheries finance							-19	-1	-3		1	-14
Defense:												
Military housing improvement fund											*	-4
Education:												
Federal direct student loan program ³												
Volume reestimate					22	-6		43				
Other technical reestimate					-383	-2,158	580	3,678	1,999	855	2,827	
College housing and academic facilities loans		3	-83	172			-1					
Homeland Security:												
Disaster assistance						47	36	-7	-6	*	4	*
Interior:												
Bureau of Reclamation loans						3	3	-6	-14		17	1
Bureau of Indian Affairs direct loans					1	5	-1	-1	2	*	*	2
Assistance to American Samoa												
State												
Repatriation loans												-3
Transportation:												
High priority corridor loans				-3								
Alameda corridor loan						-58				-12		
Transportation infrastructure finance and innovation							16				3	-11
Railroad rehabilitation and improvement program										-5	-14	-11
Treasury:												
Community development financial institutions fund						1			*	-1	*	-1
Veterans Affairs:												
Veterans housing benefit program fund	30	76	-72	465	-111	-52	-107	-697	17	-178	987	-47
Native American veteran housing									-3	*	*	*
Vocational Rehabilitation Loans									*	*	*	-1
Environmental Protection Agency:												
Abatement, control and compliance							3	-1	*	-3	*	*
International Assistance Programs:												
Foreign military financing			13	4	1	152	-166	119	-397	-64	-41	-7
U.S. Agency for International Development:												
Micro and small enterprise development								*		*		
Overseas Private Investment Corporation:												
OPIC direct loans									-4	-21	3	-7
Debt reduction						36	-4		*	-47	-104	54
Small Business Administration:												
Business loans							1	-2	1	25		-16
Disaster loans				-193	246	-398	-282	-14	266	589	196	61
Other Independent Agencies:												
Export-Import Bank direct loans	-16	37				-177	157	117	-640	-305	111	-257
Federal Communications Commission				4,592	980	-1,501	-804	92	346	380	732	-24
LOAN GUARANTEES:												
Agriculture:												
Agriculture credit insurance fund	14	12	-51	96		-31	205	40	-36	-33	-22	-162

while borrowers are in school, during a six-month grace period after graduation, and during certain deferment periods.

The FFEL program provides loans through an administrative structure involving over 3,500 lenders, 35 State and private guaranty agencies, roughly 50 participants in the secondary market, and approximately 6,000 participating schools. Under FFEL, banks and other eligible lenders loan private capital to students and parents, guaranty agencies insure the loans, and the Federal Government reinsures the loans against borrower default. Lenders bear two percent of the default risk, and the Federal Government is responsible for the remainder. The Department also makes administrative payments to guaranty agencies and, at certain times, pays interest subsidies on behalf of borrowers to lenders.

The William D. Ford Direct Student Loan program was authorized by the Student Loan Reform Act of 1993. Under the Direct Loan program, the Federal Government provides loan capital directly to more than 1,100 schools, which then disburse loan funds to students. The program offers a variety of flexible repayment plans including income-contingent repayment, under which annual repayment amounts vary based on the income of the borrower and payments can be made over 25 years with any residual balances forgiven.

Last year, the Administration worked to improve the way the loan programs operate by eliminating unnecessary subsidies, expanding risk-sharing to reduce costs, and improving the financial stability of the guaranty agency system. In response, Congress passed reconciliation legislation which will reduce excess subsidies in FFEL and help make both the Direct Loan and FFEL programs more effective. The reforms include a reduction in the percentage of Federal guarantee provided against default in recognition of the strong repayment record for student loans today and an elimination of unnecessary and costly loan subsidy provisions that allowed some loan holders to have exorbitant financial returns on loans funded through tax-exempt securities.

Business and Rural Development Credit Programs and GSEs

The Federal Government guarantees small business loans to promote entrepreneurship. The Government also offers direct loans and loan guarantees to farmers who may have difficulty obtaining credit elsewhere and to rural communities that need to develop and maintain infrastructure. Two GSEs, the Farm Credit System and the Federal Agricultural Mortgage Corporation, increase liquidity in the agricultural lending market.

Small Business Administration

The Small Business Administration (SBA) helps entrepreneurs start, sustain, and grow small businesses. As a "gap lender" SBA works to supplement market lending and provide access to credit where private lenders are reluctant to do so without a Government guarantee. Additionally, SBA assists home and business-

owners, as well as renters, cover the uninsured costs of recovery from disasters.

The 2007 Budget requests \$436 million, including administrative funds, for SBA to leverage more than \$28 billion in financing for small businesses and disaster victims. The 7(a) General Business Loan program will support \$17.5 billion in guaranteed loans while the 504 Certified Development Company program will support \$7.5 billion in guaranteed loans for fixed-asset financing. SBA will supplement the capital of Small Business Investment Companies (SBICs) with \$3 billion in long-term, guaranteed loans for venture capital investments in small businesses. At the end of 2005, the outstanding balance of business loans totaled \$63 billion.

SBA seeks to target assistance more effectively to credit-worthy borrowers who would not be well-served by the commercial markets in the absence of a Government guarantee to cover defaults. SBA is actively encouraging financial institutions to increase lending to start-up firms, low-income entrepreneurs, and borrowers in search of financing below \$150,000. SBA's outreach for the 7(a) program has been successful. Average loan size has decreased from \$232,000 in 2001 to \$160,000 in 2005, while the number of small businesses served has grown from 43,000 to 89,000 during the same time period.

Improving management by measuring and mitigating risks in SBA's \$63 billion business loan portfolio is one of the agency's greatest challenges. As the agency delegates more responsibility to the private sector to administer SBA guaranteed loans, oversight functions become increasingly important. In the past few years, SBA established the Office of Lender Oversight, which is responsible for evaluating individual SBA lenders. This office employs a variety of analytical techniques to ensure sound financial management by SBA and to hold lending partners accountable for performance. These techniques include portfolio performance analysis, selected credit reviews, credit scoring to compare lenders' performance, and industry concentration analysis. The oversight program is also developing on-site safety and soundness examinations and off-site monitoring of Small Business Lending Companies and compliance reviews of SBA lenders.

To operate more efficiently, SBA has implemented an automated loan origination system for the Disaster Loan program. The system eliminates the paper intensive processes that had been used for decades by the Office of Disaster Assistance. Savings are projected at approximately \$5 million per year under the new system. SBA is also transforming the way that staff perform loan management functions in both the 7(a) and 504 programs. In 2004, SBA implemented new procedures for Section 504 loan processing. Results have been positive with the average loan processing time reduced from four weeks to only a few days. In 2005, SBA streamlined its 7(a) guarantee processing function. Similarly, SBA has also centralized its loan liquidation functions for guaranteed programs resulting in a 78 percent reduction in related administrative costs. These

efforts have allowed the agency to reduce staffing levels while improving customer service.

The 2007 Budget proposes to continue providing preferential loan terms to victims of disasters. However, in order to contain the escalating costs of the loans while matching borrowers' assistance needs, the Budget proposes to adopt graduated interest rates for the Disaster Loan program. During the first five years after a disaster, interest rates will remain deeply subsidized, as they are currently structured, although interest rate caps would be eliminated. Thereafter, rates would graduate to those of comparable-maturity Treasury instruments. This structure would continue to provide borrowers with deep interest subsidies when they need them most—immediately after a disaster—and after five years the subsidies would be reduced for the remainder of the loan period.

In addition, the 2007 Budget builds upon the success of eliminating credit subsidy requirements for the 7(a) loan program by proposing that borrowers cover the costs of administering Federal guarantees on business loans greater than \$1 million. This will make these loans self-financing and reduce the need for taxpayer support by about \$7 million.

USDA Rural Infrastructure and Business Development Programs

USDA provides grants, loans, and loan guarantees to communities for constructing facilities such as health-care clinics, day-care centers, and water systems. Direct loans are available at lower interest rates for the poorest communities. These programs have very low default rates. The cost associated with them is due primarily to subsidized interest rates that are below the prevailing Treasury rates.

The program level for the Water and Wastewater (W&W) treatment facility loan and grant program in the 2007 President's Budget is \$1.4 billion. These funds are available to communities of 10,000 or fewer residents. Applicant communities must be unable to finance their needs through their own resources or with commercial credit. Priority is given based on their median household income, poverty levels, and size of service population as determined by USDA. Communities typically receive a grant/loan combination. The grant may be up to 75 percent of project costs; however, many projects are viable with 70 percent or more of the projects costs financed with a loan. The 2007 Budget reflects a significant change in the method for determining the interest rate charged on such loans, from a three-tiered structure (poverty, intermediate, and market) depending on community income to an interest rate that is 60 percent of the market rate not to exceed 5 percent. This change is expected to substantially reduce the loan repayment costs for most communities, at a lower loan to grant ratio. The community facility program is targeted to rural communities with fewer than 20,000 residents. It will have a program level of \$522 million in 2007.

USDA also provides grants, direct loans, and loan guarantees to assist rural businesses, including cooperatives, and to increase employment and diversify the rural economy. In 2006, USDA proposes to provide almost \$1 billion in loan guarantees to rural businesses that serve communities of 50,000 or less. USDA also provides rural business loans through the Intermediary Relending Program (IRP), which provides loan funds at a 1 percent interest rate to an intermediary, such as a State or local government agency that, in turn, provides funds for economic and community development projects in rural areas. Overall, USDA expects to retain or create over 73,000 jobs through its business programs in 2007, primarily through the Business and Industry guarantee and the IRP loan programs.

Electric and Telecommunications Loans

USDA's Rural Utilities Service (RUS) programs provide loans for rural electrification, telecommunications, distance learning, telemedicine, and broadband, and also provide grants for distance learning and telemedicine (DLT).

The Budget includes \$3.8 billion in direct electric loans, \$690 million in direct telecommunications loans, \$356 million in broadband loans and \$25 million in DLT grants. The budget proposes blocking the mandatory broadband funding and providing discretionary funding. The demand for loans to rural electric cooperatives has been increasing and is expected to increase further as borrowers replace many of the 40-year-old electric plants.

The Rural Telephone Bank is in the process of dissolving. All stock will be redeemed during 2006 and no new loans will be provided. Loans approved in prior years, but not disbursed will still be available for borrowers at modified terms to reflect the bank's dissolution.

Loans to Farmers

The Farm Service Agency (FSA) assists low-income family farmers in starting and maintaining viable farming operations. Emphasis is placed on aiding beginning and socially disadvantaged farmers. FSA offers operating loans and ownership loans, both of which may be either direct or guaranteed loans. Operating loans provide credit to farmers and ranchers for annual production expenses and purchases of livestock, machinery, and equipment. Farm ownership loans assist producers in acquiring and developing their farming or ranching operations. As a condition of eligibility for direct loans, borrowers must be unable to obtain private credit at reasonable rates and terms. As FSA is the "lender of last resort," default rates on FSA direct loans are generally higher than those on private-sector loans. However, in recent years the loss rate has decreased to 3.1 percent in 2005, compared to 3.4 percent in 2004. FSA-guaranteed farm loans are made to more credit-worthy borrowers who have access to private credit markets. Because the private loan originators must retain 10 percent of the risk, they exercise care in examining the repayment ability of borrowers. As a result,

February 28, 2006

FY 2007 REAUTHORIZATION AND LEGISLATIVE PACKAGE

TITLE I—REAUTHORIZATION OF SMALL BUSINESS PROGRAMS.

Section 101. Reauthorization of Small Business Programs.

Section 20 of the Small Business Act (15 U.S.C. 631 note) is amended as follows:

- (a) subsections (b) and (c) are deleted;
- (b) subsections (d) and (e) are redesignated as (b) and (c), respectively;
- (c) new subsections (d) through (g) are added as follows:

“(d) FISCAL YEAR 2007.—

“(1) PROGRAM LEVELS.—The following program levels are authorized for fiscal year 2007:

“(A) For the programs authorized by this Act, the Administration is authorized to make \$25,500,000,000 in deferred participation loans and other financings. Of such sum, the Administration is authorized to make—

“(i) \$17,500,000,000 in general business loans, as provided in section 7(a);

“(ii) \$7,500,000,000 in certified development company financings, as provided in section 7(a)(13) and as provided in section 504 of the Small Business Investment Act of 1958; and

“(iii) \$500,000,000 in loans, as provided in section 7(a)(21).

“(B) For the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make \$3,000,000,000 in guarantees of debentures.

“(C) For the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed \$6,000,000,000, of which not more than 50 percent may be in bonds approved pursuant to section 411(a)(3) of that Act.

“(D) The Administration is authorized to make grants or enter into cooperative agreements for a total amount of \$7,000,000 for the Service Corps of Retired Executives program authorized by section 8(b)(1).

February 28, 2006

“(2) ADDITIONAL AUTHORIZATIONS.—There are authorized to be appropriated to the Administration for fiscal year 2007 such sums as may be necessary to carry out the provisions of this Act not elsewhere provided for, including administrative expenses and necessary loan capital for disaster loans pursuant to section 7(b), and to carry out the Small Business Investment Act of 1958, including salaries and expenses of the Administration.

“(e) FISCAL YEAR 2008.—

“(1) PROGRAM LEVELS.—The following program levels are authorized for fiscal year 2008:

“(A) For the programs authorized by this Act, the Administration is authorized to make \$26,000,000,000 in deferred participation loans and other financings. Of such sum, the Administration is authorized to make—

“(i) \$18,000,000,000 in general business loans, as provided in section 7(a);

“(ii) \$7,500,000,000 in certified development company financings, as provided in section 7(a)(13) and as provided in section 504 of the Small Business Investment Act of 1958; and

“(iii) \$500,000,000 in loans, as provided in section 7(a)(21).

“(B) For the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make \$3,500,000,000 in guarantees of debentures.

“(C) For the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed \$6,000,000,000, of which not more than 50 percent may be in bonds approved pursuant to section 411(a)(3) of that Act.

“(D) The Administration is authorized to make grants or enter into cooperative agreements for a total amount of \$7,000,000 for the Service Corps of Retired Executives program authorized by section 8(b)(1).

“(2) ADDITIONAL AUTHORIZATIONS.—There are authorized to be appropriated to the Administration for fiscal year 2008 such sums as may be necessary to carry out the provisions of this Act not elsewhere provided for, including administrative expenses and necessary loan capital for disaster loans pursuant to section 7(b), and to carry out the Small Business Investment Act of 1958, including salaries and expenses of the Administration.

February 28, 2006

“(f) FISCAL YEAR 2009.—

“(1) PROGRAM LEVELS.—The following program levels are authorized for fiscal year 2009:

“(A) For the programs authorized by this Act, the Administration is authorized to make \$27,000,000,000 in deferred participation loans and other financings. Of such sum, the Administration is authorized to make—

“(i) \$18,500,000,000 in general business loans, as provided in section 7(a);

“(ii) \$8,000,000,000 in certified development company financings, as provided in section 7(a)(13) and as provided in section 504 of the Small Business Investment Act of 1958; and

“(iii) \$500,000,000 in loans, as provided in section 7(a)(21).

“(B) For the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make \$4,000,000,000 in guarantees of debentures.

“(C) For the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed \$6,000,000,000, of which not more than 50 percent may be in bonds approved pursuant to section 411(a)(3) of that Act.

“(D) The Administration is authorized to make grants or enter into cooperative agreements for a total amount of \$7,500,000 for the Service Corps of Retired Executives program authorized by section 8(b)(1).

“(2) ADDITIONAL AUTHORIZATIONS.—There are authorized to be appropriated to the Administration for fiscal year 2009 such sums as may be necessary to carry out the provisions of this Act not elsewhere provided for, including administrative expenses and necessary loan capital for disaster loans pursuant to section 7(b), and to carry out the Small Business Investment Act of 1958, including salaries and expenses of the Administration.

“(g) FISCAL YEAR 2010.—

“(1) PROGRAM LEVELS.—The following program levels are authorized for fiscal year 2010:

February 28, 2006

“(A) For the programs authorized by this Act, the Administration is authorized to make \$28,000,000,000 in deferred participation loans and other financings. Of such sum, the Administration is authorized to make—

“(i) \$19,000,000,000 in general business loans, as provided in section 7(a);

“(ii) \$8,500,000,000 in certified development company financings, as provided in section 7(a)(13) and as provided in section 504 of the Small Business Investment Act of 1958; and

“(iii) \$500,000,000 in loans, as provided in section 7(a)(21).

“(B) For the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make \$4,000,000,000 in guarantees of debentures.

“(C) For the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed \$6,000,000,000, of which not more than 50 percent may be in bonds approved pursuant to section 411(a)(3) of that Act.

“(D) The Administration is authorized to make grants or enter into cooperative agreements for a total amount of \$8,000,000 for the Service Corps of Retired Executives program authorized by section 8(b)(1).

“(2) ADDITIONAL AUTHORIZATIONS.—There are authorized to be appropriated to the Administration for fiscal year 2010 such sums as may be necessary to carry out the provisions of this Act not elsewhere provided for, including administrative expenses and necessary loan capital for disaster loans pursuant to section 7(b), and to carry out the Small Business Investment Act of 1958, including salaries and expenses of the Administration.”

Sec. 102. Additional Reauthorizations.

(a) PAUL D. COVERDELL DRUG-FREE WORKPLACE PROGRAM.—

(1) Paragraph 27(g)(1) of the Small Business Act (15 U.S.C. 654(g)(1)) is amended by striking “2005 and 2006” and inserting “2007 through 2010”; and

(2) Paragraph 27(g)(2) (15 U.S.C. 654(g)(1)) is amended by striking “2005 and 2006” and inserting “2007 through 2010”.

February 28, 2006

(b) SBDC SERVICES.—Subparagraph 21(c)(3)(T) of the Small Business Act (15 U.S.C. 648(c)(3)(T)) is amended by striking “2006” and inserting “2010.”

(c) COSPONSORSHIP AND GIFT ACCEPTANCE AUTHORITY.—Subsection 132(c) of P.L. 108-447 (118 Stat. 2809-644) is amended by striking “2006” and inserting “2010.”

(d) HUBZONE.—Section 31(d) of the Small Business Act (15 U.S.C. 657a(d)) is amended by deleting “2004 through 2006” and inserting “2007 through 2010”.

TITLE II. AMENDMENTS TO THE SMALL BUSINESS ACT.

Sec. 201. Repeals.

(a) SBIR/STTR RURAL OUTREACH GRANTS.—Subsection 9(s) of the Small Business Act (15 U.S.C. 638(s)) is repealed.

(b) BUSINESSLINC GRANTS AND COOPERATIVE AGREEMENTS.—Subsection 8(n) of the Small Business Act (15 U.S.C. 637(n)) is repealed.

(c) LOWDOC LOAN PROGRAM.—Subparagraph 7(a)(25)(C) of the Small Business Act (15 U.S.C. 636(a)(25)(C)) is repealed.

(d) MICROLOAN PROGRAM.—Subsection 7(m) of the Small Business Act (15 U.S.C. 636(m)) is repealed.

(e) MICROENTERPRISE TECHNICAL ASSISTANCE AND CAPACITY BUILDING PROGRAM (PRIME).—Sections 6901 through 6910 of Title 15, U.S. Code, are repealed.

(f) Subsections 7(h) and 7(i) of the Small Business Act (15 U.S.C. 636(h) and (i)) are repealed.

(g) TREE PLANTING.—Section 24 of the Small Business Act (15 U.S.C. 651) is repealed.

(h) CENTRAL EUROPEAN ENTERPRISE DEVELOPMENT.—Section 25 of the Small Business Act (15 U.S.C. 652) is repealed.

(i) FEDERAL AND STATE TECHNOLOGY PARTNERSHIP PROGRAM.—

(1) Section 34 of the Small Business Act (15 U.S.C. 657d) is repealed.

February 28, 2006

(2) Section 35 of the Small Business Act (15 U.S.C. 657e) is amended by—

- (A) deleting “; and” from the end of paragraph (a)(2) and inserting “.”;
- (B) striking paragraph (a)(3); and
- (C) deleting the reference to FAST in paragraph 35(d)(1).

Sec. 202. Supervisory and Enforcement Authority for Small Business Lending Companies Technical Correction.

Subsection 23(h) of the Small Business Act (15 U.S.C. 650(h)) is amended to read as follows:

“(h) INJUNCTIONS AND APPOINTMENT OF RECEIVERS.—

“(1) Whenever, in the judgment of the Administration, a small business lending company, a non-Federally regulated lender, or any other person has engaged or is about to engage in any acts or practices which constitute or will constitute a violation of any provision of this Act, or any rule or regulation under this Act, or of any order issued under this Act, the Administration may make application to the proper district court of the United States or a United States court of any place subject to the jurisdiction of the United States for an order enjoining such acts or practices, or for an order enforcing compliance with such provision, rule, regulation, or order, and such courts shall have jurisdiction of such actions and, upon a showing by the Administration that such small business lending company, non-Federally regulated lender, or other person has engaged or is about to engage in any such acts or practices, a permanent or temporary injunction, restraining order, or other order, shall be granted without bond.

“(2) In any such injunction proceeding the court may take exclusive jurisdiction of a small business lending company or a non-Federally regulated lender and appoint a receiver to hold and administer the assets of the company or lender.

“(3) Upon request of the Administrator, the court may appoint the Administrator as receiver under paragraph (2).”

Sec. 203. Supervisory and Enforcement Authority for Small Business Lending Companies Definition.

Section 3(r)(1) of the Small Business Act (15 U.S.C. 632(r)(1)) is amended to read as follows:

February 28, 2006

“(1) SMALL BUSINESS LENDING COMPANY.—The term “small business lending company” means a financial institution approved by the Administration to only make loans under section 7 of this Act.”

Sec. 204. Paul D. Coverdell Drug-Free Workplace Program Technical Correction.

Section 126 of Division K of P.L. 108-447 is amended by:

- (a) deleting “27(c)” in the first sentence and replacing it with “27(d)” and
- (b) deleting “(c)” and inserting instead “(d)”.

Sec. 205. HUBZone Definition Correction.

Section 3(p)(4)(D)(iv) of the Small Business Act (15 U.S.C. 632(p)(4)(D)(iv)) is amended by deleting “base closures of redevelopment” and inserting “base closures or redevelopment”.

Sec. 206. Loan Policy Board.

Section 4(d) of the Small Business Act (15 U.S.C. 633(d)) is amended to read as follows:

“(d) The Administration shall establish general policies (particularly with reference to the public interest involved in the granting and denial of applications for financial assistance by the Administration and with reference to the coordination of the functions of the Administration with other activities and policies of the Government) which shall govern the granting and denial of applications for financial assistance by the Administration.”

Sec. 207. Authority of Administration to Require Identification of Referral Agents and Packagers.

Section 5 of the Small Business Act (15 U.S.C. 634) is amended as follows:

- (1) striking “; and” at the end of paragraph (b)(13);
- (2) inserting “; and” at the end of paragraph (b)(14); and
- (3) adding the following new paragraph (15):

“(15) require referral agents and packagers, as those terms are defined by the Administration, who provide assistance to small business concerns that apply for a loan under section 7 of this Act, or a loan made under the authority of Title V of the Small Business Investment Act of 1958, to provide their names, dates of birth and Social Security numbers to the Administration.”

February 28, 2006

Sec. 208. Changes to Penalty Provisions.

(a) Section 16(a) of the Small Business Act (15 U.S.C. 645(a)) is amended by:

(1) inserting after the word "false" the following: "or knowingly causes another to make a false statement,";

(2) inserting after the phrase "this Act," the following: "or the Small Business Investment Act of 1958,"; and

(3) deleting "\$5,000" and inserting "\$250,000".

(b) Section 16(b) of the Small Business Act (15 U.S.C. 645(b)) is amended by:

(1) inserting after "being" the following: "an officer, agent or employee of or", and

(2) deleting "\$10,000" and inserting "250,000".

(c) Section 16(c) of the Small Business Act (15 U.S.C. 645(c)) is amended to read as follows:

"Whoever, with intent to defraud, knowingly conceals, removes, disposes of, or converts to his own use or to that of another, any property mortgaged or pledged to, or held by, the Administration, or any property mortgaged or pledged as security for any promissory note, or other evidence of indebtedness, which has been given in order to obtain a loan under this Act or the Small Business Investment Act of 1958, shall be fined not more than \$250,000 or imprisoned not more than five years, or both; but if the value of such property does not exceed \$5,000, he shall be fined not more than \$10,000 or imprisoned not more than one year or both."

(d) Section 16(d)(2)(C) of the Small Business Act (15 U.S.C. 645(d)(C)(2)) is amended by inserting after "(or any successor regulation)" the following: " , or as specified in Part 145 of Title 13, Code of Federal Regulations,".

(e) Title 18 of the United States Code is amended by:

(1) Section 20 of Title 18 of the United States Code (18 U.S.C. 20) is amended in paragraph (5), by inserting, after the words "in section 103 of the Small Business Investment Act of 1958 (15 U.S.C. 662)", the words "or a small business lending company subject to regulation by the Small Business Administration under section 23 of the Small Business Act (15 U.S.C. 650)".

(2) Section 1014 of Title 18 of the United States Code (18 U.S.C. 1014) is amended—

February 28, 2006

(A) by striking “a small business investment company as defined in section 103 of the Small Business Investment Act of 1958 (15 U.S.C. 662)”, and inserting the words: “a small business investment company or a development company as these terms are defined in section 103 of the Small Business Investment Act of 1958 (15 U.S.C. 662), a small business lending company subject to regulation by the Small Business Administration under section 23 of the Small Business Act (15 U.S.C. 650)”; and

(B) by striking, after the words “or the Small Business Administration in connection with any provision of”, the words “that Act” and inserting the words “those Acts”.

Sec. 209. Changes to Fee Provisions.

(a) Section 5(b) of the Small Business Act (15 U.S.C. 634(b)) is amended—

(1) in subparagraph (12)(C), by striking “and” at the end;

(2) by inserting at the end of subparagraph 5(b)(12)(D) “; and” and adding the following new subparagraph (E):

“(E) to cover certain loanmaking activities to be deposited in the account for salaries and expenses of the Administration—

“(i) for loans in an amount of more than \$1,000,000 made under the authority of section 7(a) of the Small Business Act, which fees shall be payable by the borrowers;

“(ii) for loans made with the proceeds of debentures of more than \$1,000,000 made under the authority of Title V of the Small Business Investment Act of 1958, which fees shall be payable by the borrowers; and

“(iii) for SBIC commitments of more than \$1,000,000 made under the authority of Title III, Part A, of the Small Business Investment Act of 1958, which fees shall be payable by the small business investment company.”

(b) **TIMELY PAYMENT OF 7(a) SECONDARY MARKET FEE.**—Section 5(g)(2) of the Small Business Act is amended by:

(1) renumbering the present paragraph as subparagraph (A); and

(2) adding a new subparagraph (B) to read as follows:

“(B) With respect to the Administration’s guaranty of the timely payment of the principal and interest on trust certificates issued under this subsection on or after October 1, 2006, the Administration shall assess, collect and retain a fee in the amount and frequency, as established annually by the Administration, as necessary to reduce to zero

February 28, 2006

the cost (as defined in section 502 of the Federal Credit Reform Act of 1990) to the Administration of making this guaranty: Provided, That the fee shall be payable by the holders of such trust certificates: and Provided further, that the fee shall not be charged to any borrower whose loan is represented in the secondary market by a trust certificate authorized under subparagraph (A). The Administration may contract with an agent to carry out, on behalf of the Administration, the assessment and collection of this fee. The fee shall be deducted from the amounts otherwise payable to such holders of trust certificates until the fee is paid in full."

(c) **LENDER OVERSIGHT EXAMINATION AND REVIEW FEES.—**

Section 5(b)(14) of the Small Business Act (15 U.S.C. 634(b)(14)) is amended by inserting after the phrase "of this Act" the following: "and state and local development companies under Title V of the Small Business Investment Act of 1958 (15 U.S.C. 695 et seq.)."

Sec. 210. Real Estate Appraisals.

(a) Section 7(a)(29)(A) of the Small Business Act (15 U.S.C. 636(a)(29)) is amended by adding at the end the following:

"The Administration shall periodically adjust the \$250,000 amount in this paragraph to take into account the effects of inflation, but in no event will the amount of any adjustment be less than \$50,000."

(b) Section 502(3)(E) of the Small Business Investment Act of 1958 (15 U.S.C. 696(3)(E)) is amended by adding at the end the following:

"The Administration shall periodically adjust the \$250,000 amount in this paragraph to take into account the effects of inflation, but in no event will the amount of any adjustment be less than \$50,000."

Sec. 211. Leasing Policy.

(a) Section 502 of the Small Business Investment Act of 1958 (15 U.S.C. 696(3)(E)) is amended by—

- (1) deleting paragraph (5);
- (2) renumbering paragraph "(6)" as "(5)"; and
- (3) amending paragraph (4) to read as follows:

"(4) If the project is to acquire an existing facility or to construct a new facility, the small business concern that is being assisted must immediately use no less than 60 percent of the space in the project, and it may permanently lease to others no more than 40 percent of the facility's space."

February 28, 2006

(b) Paragraph 7(a)(28) of the Small Business Act (15 U.S.C. 636(a)(28)) is amended to read as follows:

“(28) If the loan guaranteed under this subsection is to be used to acquire an existing building or to construct a new building, the small business concern that is being assisted must immediately use no less than 60 percent of the space in the building, and it may permanently lease to others no more than 40 percent of the building’s space.”

Sec. 212. Use of Systematic Alien Verification for Entitlement Program (SAVE).

Section 5(b) of the Small Business Act (15 U.S.C. 634(b)) is amended—

(1) by striking “and” at the end of paragraph (12)(D);

(2) by inserting “and” at the end of subparagraph 5(b)(12)(E) and adding the following new subparagraph after section 5(b)(12)(E) as follows:

“(F) With respect to any applicant for a loan guaranteed under section 7(a) of this Act, or any applicant for a loan made under title V of the Small Business Investment Act of 1958, for whom the Administration verifies the alien status of the applicant through the Systematic Alien Verification for Entitlement (SAVE) program, or any successor program, the Administration shall collect a fee, which shall be payable by the participating lender, or the development company, and may be charged to the borrower, to cover the expense of such program. This fee may be changed from time to time in order to cover the charges by such program and shall be deposited in the account for salaries and expenses of the Administration.”

Sec. 213. Misuse of agency name, initials, seal and logo; authority of United States Attorney to enjoin.

Section 4 of the Small Business Act (15 U.S.C. 633) is amended by adding at the end a new subsection (i) as follows:

“(i) MISUSE OF AGENCY NAME, INITIALS, SEAL AND LOGO.—

“(1) No person or entity may—

“(A) knowingly use the words ‘Small Business Administration’ or the letters ‘SBA’, or any combination, variation, or colorable imitation of those words or letters, either alone or in combination with other words or letters, as a firm or business name in a manner reasonably calculated to convey the impression that such firm or business has some connection with, endorsement of, or authorization from, the United States Small Business Administration which does not, in fact, exist;

“(B) knowingly use those words or letters in combination, variation, or colorable imitation thereof either alone or in combination with other words or letters in

February 28, 2006

connection with any product or service being offered or made available to the public in a manner reasonably calculated to convey the impression that such product or service has the authorization, support, sponsorship, or endorsement of, or the development, use, or manufacture by or on behalf of the United States Small Business Administration, which does not, in fact, exist; or

“(C) knowingly use the SBA logo or seal in connection with any business, firm, product or service being offered or made available to the public in a manner reasonably calculated to convey the impression that such business, firm, product or service has the authorization, support, sponsorship, or endorsement of the United States Small Business Administration which does not, in fact, exist.

“(2) Upon complaint by a duly authorized representative of the United States Small Business Administration or whenever it appears to the United States Attorney that any person is engaged in an act or practice which constitutes or will constitute conduct prohibited by paragraph (1) of this subsection, the United States Attorney may initiate a civil proceeding in a district court of the United States to enjoin such act or practice.”

TITLE III. AMENDMENTS TO THE SMALL BUSINESS INVESTMENT ACT OF 1958.

Sec. 301. Technical Correction.

Section 308(b) of the Small Business Investment Act (15 USC 687(b)) is amended in the last sentence by striking, “is licensed before October 1, 2004 and”.

Sec. 302. Debenture Monthly Payment Schedule.

Subparagraph 503(a)(4) of the Small Business Investment Act of 1958 (15 U.S.C. 697(a)(4)) is amended by adding the following sentence at the end:

“Any such debenture that is issued may use a monthly payment schedule.”

TITLE IV. WOMEN’S BUSINESS PROGRAMS.

Sec. 401. National Women’s Business Council Reauthorization.

Subsection 411(a) of the Women’s Business Ownership Act of 1988 (15 U.S.C. 7110(a)) is amended by striking “2001 through 2003” and inserting “2007 through 2010.”

Sec. 402. Women’s Business Center Program.

Section 29(k) of the Small Business Act (15 U.S.C. 656(k)) is amended by:

(1) in paragraph (1), deleting subparagraphs (A) through (D) and adding new subparagraphs (A) through (C) as follows:

February 28, 2006

“(A) \$14,500,000 for fiscal year 2007;

“(B) \$14,500,000 for fiscal year 2008;

“(C) \$15,000,000 for fiscal year 2009; and

“(D) \$15,500,000 for fiscal year 2010.”

(2) in subparagraph (2)(B), deleting clauses (i) through (iv) and adding new clauses (i) through (iii) as follows:

“(i) For fiscal year 2007, 1.6 percent.

“(ii) For fiscal year 2008, 1.6 percent.

“(iii) For fiscal year 2009, 1.6 percent.

“(iv) For fiscal year 2010, 1.6 percent.”

TITLE V. DISASTER LOANS.

Sec. 501. Disaster Loan Program Amendment.

Section 845 of Public Law 109-163 is repealed.

Sec. 502. Disaster Loan Interest Rates.

Section 7(c) of the Small Business Act (15 U.S.C. 636(c)) is amended by inserting new paragraph (8) as follows:

“(8) Notwithstanding the provisions of any other law, the interest rate on the Federal share of any loan made under subsection (b)(1) and (b)(2) on account of a disaster commencing on or after October 1, 2006, shall be—

“(A) in the case of a homeowner unable to secure credit elsewhere, for the first five years of the loan the rate prescribed by the Administration but not more than one-half the rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the average maturities of such loans plus an additional charge of not to exceed 1 percent per year as determined by the Administrator, and adjusted to the nearest one-eighth of 1 percent, and for the remaining term of the loan the rate prescribed by the Administration but not more than the rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the average maturities of such loans;

February 28, 2006

“(B) in the case of a homeowner able to secure credit elsewhere, the rate prescribed by the Administration but not more than the rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the average maturities of such loans plus an additional charge of not to exceed 1 percent per year as determined by the Administrator; and adjusted to the nearest one-eighth of 1 percent;

“(C) in the case of a business or other concern, including agricultural cooperatives, unable to obtain credit elsewhere, for the first five years of the loan the rate prescribed by the Administration but not more than one-half of the lower of (i) the rate prevailing in the private market for similar loans, or (ii) the rate prescribed by the Administration as the maximum interest rate for deferred participation (guaranteed) loans under section 7(a) of this Act, and for the remaining term of the loan the rate prescribed by the Administration but not more than the rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the average maturities of such loans;

“(D) in the case of a business concern able to obtain credit elsewhere, the rate prescribed by the Administration but not in excess of the lower of (i) the rate prevailing in the private market for similar loans, or (ii) the rate prescribed by the Administration as the maximum interest rate for deferred participation (guaranteed) loans under section 7(a) of this Act. Loans under this subparagraph shall be limited to a maximum term of three years.”

Sec. 503. Economic Injury Disaster Loans to Nonprofits.

(a) Section 7(b)(2) of the Small Business Act (15 U.S.C. 636(b)(2)) is amended by—

(1) inserting after the phrase “small business concern” the following: “, private nonprofit organization,”;

(2) inserting after the phrase “the concern” the following: “, organization,”; and

(3) in subparagraph (D), after the phrase “small business concerns” the following: “, private nonprofit organizations,”.

(b) Section 7(c) of the Small Business Act (15 U.S.C. 636(c)) is amended by—

(1) in subparagraph (5)(C), inserting “, organization” after “business”; and

February 28, 2006

(2) in subparagraph (8)(C), as added by section 502 of this Act, inserting “, organization” after “business”.

TITLE VI. SMALL BUSINESS DEVELOPMENT CENTER PROGRAM.

Sec. 601. Small Business Development Center Authorization of Appropriations.

Section 21(a)(4)(C)(vii) of the Small Business Act (15 U.S.C. 648(a)(4)(C)(vii)) is amended by deleting subclauses (I) and (II) and inserting the following:

- “(I) \$135,000,000 for fiscal year 2007;
- “(II) \$135,000,000 for fiscal year 2008;
- “(III) \$135,000,000 for fiscal year 2009; and
- “(IV) \$135,000,000 for fiscal year 2010.”

Sec. 602. Small Business Development Center Review Expenses.

Section 21(a)(4)(C)(v)(I) of the Small Business Act (15 U.S.C. 648(a)(4)(C)(v)(I)) is amended by

- (1) striking the period at the end of 21(a)(4)(C)(v)(I)(bb) and inserting “; and” and
- (2) inserting a new (cc) as follows: “(cc) not more than 1 percent may be used for financial examination and programmatic review expenses, centralized data collection, and other costs related to monitoring and oversight.”

Sec. 603. Small Business Development Center Portability Grants.

Section 21(a)(4)(C)(viii) of the Small Business Act (15 U.S.C. 648(a)(4)(C)(viii)) is amended by:

- (1) inserting at the end thereof the following:

“At the discretion of the Administration, awards in excess of the \$100,000 limit imposed above may be made to recipients to accommodate extraordinary occurrences having catastrophic impact on the communities’ small businesses.”; and

- (2) deleting the phrase “as a result of a business or government facility downsizing or closing, which has resulted in the loss of jobs or small business instability.” and inserting the following: “as a result of events that have, or will result in, business or government facility downsizing or closing.”

February 28, 2006

Sec. 604. Assistance to Out-of-State Businesses.

Section 21(b)(3) of the Small Business Act (15 U.S.C. 648(b)(3)) is amended by adding the following sentence at the end:

“The Administration may also, at its discretion, authorize a small business development center to provide such assistance to small businesses located outside the State without regard to geographic proximity where the small businesses are located in a disaster area declared under subparagraph 7(b)(2)(A).”

Sec. 605. National Small Business Development Center Advisory Board.

Section 21(i)(1) of the Small Business Act (15 U.S.C. 648(i)(1)) is amended to read as follows:

“(1) There is established a National Small Business Development Center Advisory Board (herein referred to as ‘Board’) which shall consist of ten members appointed from civilian life by the Administrator and who shall be persons of outstanding qualifications known to be familiar and sympathetic with small business needs and problems. No more than four members shall be from universities or their affiliates and six shall be from small businesses or associations representing small businesses. Board members shall serve three-year terms with staggered appointments so that the entire composition of the Board completely turns over every three years.”

DONALD A. MANZULLO, ILLINOIS
CHAIRMAN

NYDIA M. VELÁZQUEZ, NEW YORK

Congress of the United States
House of Representatives
109th Congress

Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

STATEMENT
of the

Honorable Nydia M. Velázquez, Ranking Democratic Member
House Committee on Small Business
Hearing on SBA Budget and SBA Reauthorization
March 15, 2006

Over the past five years, SBA's budget has been cut nearly in half. Clearly, there are many areas of the agency's budget we could delve into today. But at this point in time – with thousands of Gulf Coast small businesses desperately in need of SBA assistance – the SBA's disaster loan program needs the immediate attention of Congress.

Hurricane Katrina has been very telling of what the SBA has become. There is no doubt that Hurricane Katrina was one of the most massive disasters to ever touch down in the United States – and there was no way for the individuals that reside in the Gulf Coast region to avoid its path.

But what could have been mitigated – what we do have control over – is the response. SBA's lack of planning and foresight in this disaster response shows that something has gone terribly wrong in this agency's ability to assist small businesses.

The fact that they implemented a brand new loan processing system at the height of hurricane season is very indicative of the agency's foresight for dealing with disasters. To compound the difficulties, the agency drastically reduced their number of disaster employees as part of a workforce transformation, to only have to turn around at the last minute and rehire a brand new group of workers.

The worst part is that this agency does not seem to have learned from its mistakes. SBA has been through two massive disasters over the past five years – yet, they have no plan of action and they have done nothing to show they are taking steps to avoid these types of missteps in the future.

Instead, the agency has chosen to make decisions on a whim. From their GO Loan program which was supposed to make millions in loans – but they have only administered 150 loans, to their attempt to utilize bank employees as volunteers. These are not solutions – steps like this do not put loans into the hands of those that need it most right now.

Today – **nearly 7 months** after Hurricane Katrina touched down – 65 percent of the loans have been declined, less than 10 percent of approvals have been paid out and individuals are still saying they are having to wait over 3 months just to hear back from SBA!

Rather than addressing these downfalls, SBA has instead managed to throw out a myriad of reasons for all of this. But the bottom line here is that the approval rates should not be declining at such massive rates.

We are releasing a report today that shows for the last five years, approval rates have been historically lower for disaster loans when compared to previous administrations. Where averages used to be around 60 percent during the George H.W. and Clinton administrations – they are now only around 35 percent.

These declining approval rates are a result of changing priorities. The goal used to be to make these loans wholeheartedly, but now it seems the goal is to make these loans on the cheap.

We are going to hear from a real women business owner from the Gulf Coast region today – one woman that is representing thousands of stories just like hers. I also want to share this video of Patrick Kimbrell from the Gulf Coast, as yet another example of the hardships facing individuals in accessing disaster assistance through SBA.

This is the reality – and the truth is that there are far too many of these stories. It is clear that something is not working here – and it is about time we have some leadership that will get the job done and enable the Gulf Coast to make a full recovery.



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

TESTIMONY OF
ADMINISTRATOR HECTOR BARRETO
United States House of Representatives
Committee on Small Business
Wednesday, March 15, 2006

Chairman Manzullo, Ranking Member Velazquez, distinguished members of the Committee, thank you for inviting me here today to discuss the President's FY 2007 budget requests for the Small Business Administration (SBA) and related legislative issues.

Since 2001, the SBA has been on a mission to deliver more services to the nation's small businesses. We are proud of the SBA's success in that quest and the FY 2007 budget reflects a continuation of this goal.

Lending is at an all-time high, more clients than ever are being served by our Entrepreneurial Development programs, and improved methods to assist small businesses gain access to government contracting opportunities have been implemented. These accomplishments have had challenges, but we have met the challenge to better serve the needs of American small businesses.

By restructuring key Agency operations and reengineering the agency's largest loan programs, the SBA has achieved record program growth while operating more efficiently and reducing its total budget by more than 37% since 2001. The SBA has improved the effectiveness of the taxpayers' dollars supporting small business development.

With these improved efficiencies in FY 2007, SBA will be able to serve record numbers of small businesses with a total budget request of \$624 million.

SBA IS AN EQUAL OPPORTUNITY EMPLOYER AND PROVIDER



Capital Access

SBA has supported record setting growth in small business lending. We have significantly increased our loan volume since 2001, more than doubling the number of 7(a) and 504 loans guaranteed. In FY 2005 nearly 98,000 small business borrowers received financial assistance through the 7(a) and 504 loan programs, compared to only 42,000 in FY 2001.

The FY 2007 request will support \$28 billion in financing to the U.S. small business community. This represents a 42% business lending increase over FY 2005, through the 7(a), 504, and SBIC debentures program. For the 7(a) program, the \$17.5 Billion is a 22% increase over our final FY 2005 lending level and 38% more than FY 2004. Lending to minorities increased by 23% and loans to women-owned businesses was also up by 39% during that same period.

Approximately 40% of 7(a) loans are under \$35,000, going to America's "mom and pop" businesses, making the costly Microloan program unnecessary. The Microloan program costs \$0.95 for every dollar loaned in FY 2005 compared to the 7(a) program which cost 1/3 of one cent for every dollar loaned. Through the 7(a) program alone, we plan to guarantee loans to approximately 98,000 businesses in FY 2007.

We are also requesting a \$7.5 billion 504 program level, a 50% increase over FY 2005 and an SBIC Debenture program of \$3 billion. Through all of these programs SBA will be able to continue to meet growing demand for loans in FY 2007 without fear of shutdowns or caps because all three programs operate at zero subsidy.

Zero subsidy is still the best policy for promoting the long term stability and growth of SBA's loan programs. This funding structure is having a positive effect on SBA lending. Because of the current fee structure, the programs are stable, self-supporting and free from the volume limitations imposed by a finite annual appropriation. As a result, small business borrowers can access credit through the SBA without having to worry about temporary loan limits and periodic shutdowns caused by appropriations shortfalls.

With an outstanding guaranteed and direct loan portfolio approaching \$70 billion, SBA has a critical role as a steward of the taxpayers' dollars. In addition to increased efficiencies in lending processes we have improved our lender oversight functions - allowing us to not just operate leaner, but smarter.

We have been able to reach milestones of service delivery through more streamlined and efficient processes such as consolidating 7(a) loan liquidation functions from almost 70 district offices to a single location. Consolidating the loan liquidation functions reduced costs by \$25 million from \$32 million in FY 2003 to \$7 million in FY 2005.

The result of the implementation of efficiencies is that the cost of funding a 7(a) loan dropped from \$3,923 in FY 2001 to \$559 in FY 2005 - an 85% drop. The cost of funding a 504 loan decreased to \$1,581 in FY 2005 from \$3,101 in FY 2001 - a 51% decrease. The SBA will continue to be good stewards of taxpayer money in FY 2007. Through further consolidations and efficiencies planned for FY 2006 and 2007 will include annual savings of

\$5 million by FY 2008 for rent. Future plans to centralize 7(a) loan processing and 504 and Disaster loan liquidation will provide additional efficiencies.

In keeping with these savings and efficiencies the Administration is proposing an administrative fee for SBA's 7(a), 504 and SBIC loans over \$1 million. This fee will cover the cost of making these loans. Only 3% of 7 (a) borrowers will be affected, while taxpayers will save \$7 million in FY 2007.

SBA is also seeking the ability to cover subsidy expenses through new fee authority pools of 7(a) loans sold in the secondary market and for administrative expenses for oversight of Certified Development Companies in the 504 loan program. We are not presently proposing a specific secondary market fee for this purpose, but support granting SBA the statutory authority to charge such fees in the future would eliminate the chance of a program shutdown.

The President's FY 2007 budget reflects the same commitment to successful lending programs that have been attained since 2001.

Entrepreneurial Development

The Office of Entrepreneurial Development manages a strong distribution network of service centers for small businesses across the country. The services offered include assistance in preparing business plans, loan applications, procurement assistance, marketing plans, export advice, and competitive assessments.

SBA serves these clients through our three resource partners: Small Business Development Centers (SBDCs), Women's Business Centers (WBCs), and SCORE. In FY 2006, our resource partners trained and counseled over 1.1 million clients. In addition, since 1994 the Office of Native American Affairs (ONAA) has worked to address the unique needs of America's First People. SBA provided almost \$1 million in grants under the Drug Free Workplace program. The Agency will continue to promote these grants through our partners.

We continue to focus on making our ED programs more effective and efficient. As part of our strategic planning process, we sought to identify the characteristics of the small business owners of the future.

Next, we focused on ensuring that all of our counseling programs use the same performance measurement system. We now have consistent definitions across all programs for counseling sessions, information transfers, online counseling, and training.

To collect this information, we updated and revised our Management Information System. We have successfully completed the first comprehensive collection of data using standardized definitions across all programs, using the EDMISII system which will allow us to perform an analysis of services provided to clients and of client demographics.

To reach new clients, SBA is encouraging our partners to utilize online development and maximize the resources we provide them to increase capacity for outreach.

SBA and SCORE have pioneered online counseling. Approximately 34% of SCORE total counseling is done online. The Office of Entrepreneurial Development has been a leader in pursuing the use of the internet to expand its products and services. In addition, 311,000 clients registered for our 23 online courses through our Small Business Training Network and 1.04 million accessed the SBA website. SCORE has indicated that a combination of on-line and face to face counseling is the most effective approach.

In addition to the programs offered through the SBA Office of Entrepreneurial Development, in July 2004 the President announced the creation of a public-private partnership between the Administration, the Business Roundtable, the Ewing Marion Kauffman Foundation, and the National Urban League called the Urban Entrepreneur Partnership (UEP). The UEP combines the resources of the private, public and non-profit sectors in order to expand entrepreneurship and jobs in historically neglected or economically underperforming urban areas. Among specific actions undertaken by the UEP, it opened an office in the Gulf region to help position minority-owned businesses for opportunities related to the rebuilding of Gulf Coast communities following the devastation of Hurricanes Katrina and Rita. In addition, centers have opened in Kansas City, Cleveland, and Jacksonville. There are plans to open in Atlanta, Cincinnati, Milwaukee and Baltimore this year. The SBA has become an active supportive partner in this initiative.

Government Contracting

SBA's Office of Government Contracting and Business Development has 58 Procurement Center Representatives (PCRs) assisting small business with federal procurement issues. In Fiscal Year 2004, small businesses received contract awards totaling a little over \$69 billion of the approximate \$300 billion in total federal contract awards.

SBA's Office of Government Contracting and Business Development have also instituted enhanced practices and technological improvements. In FY 2006, the SBA developed a different approach to Agency goaling to bring more transparency to the process as well as recognize the variances in procurement requirements among Federal agencies. Technological improvements have provided many benefits and increased efficiencies concerning government contracting opportunities and monitoring.

Strides have been made to maximize staff resources and monitor contracting activities, as well as to improve communication and interaction with the small business community through the automation of many basic systems. Systems include the Electronic Subcontracting Reporting System (ESRS), the 8(a) application and annual review process, the HUBZone Procurement Query and Reporting System, as well as the Central Contractor Registration, the Federal Procurement Data System - Next Generation (FPDS-NG), and Tech Net among others. As technology is ever changing and improving, so are the efficiencies enhanced by using these E-gov systems.

The added benefit of these technological advances is apparent in the business matchmaking efforts following the Gulf Coast Hurricane disasters. SBA's field resources were focused on providing procurement opportunities for these small businesses. Over 500 businesses registered for these procurement opportunities in the Business Matchmaking database were certified as able to compete for Federal procurements. Electronic notifications with updates to the projects, and follow-up calls were made by SBA procurement professionals who provided further assistance. Each firm has had its profile uploaded to the GSA electronic notification system to receive electronic alerts of procurement opportunities. Each firm is eligible to participate in the Business Matchmaking Online. Of the \$1.6 billion in "Katrina" Federal contracts entered into the FDPS-NG, \$1.1 billion was awarded to small business, over \$750 million to local businesses.

With the successful launch of the Electronic Subcontract Reporting System (eSRS) in October, 2005 more than 700 contractors have filed approximately 5,000 reports. This system replaced the paper forms that prime contractors submitted to report on their subcontracting. Enhancements to the system to be implemented at the beginning of FY 2007 will allow SBA to determine which contractors are, and which are not, meeting their goals for Small Business, Small Disadvantaged Business, Women-owned, HUBZone, veterans and service-disabled veterans.

In FY 2007 SBA will continue to work for fair and open access in the in the Federal procurement arena.

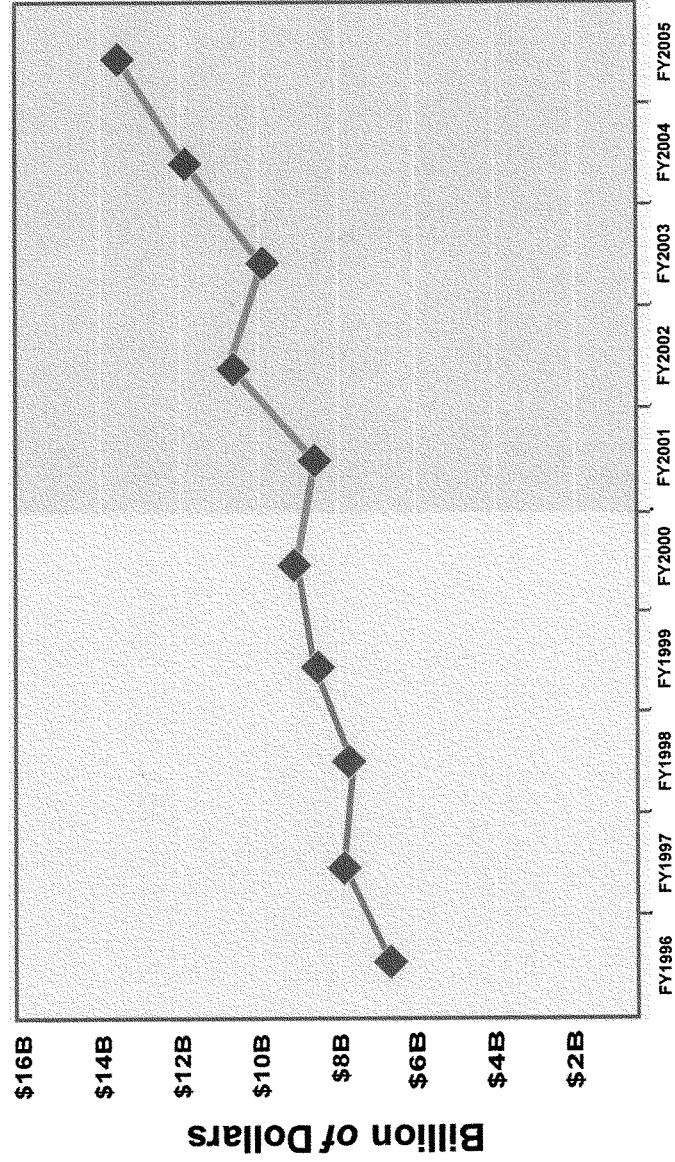
Disaster Assistance

SBA's Office of Disaster Assistance has met the challenges brought by Hurricanes Katrina, Wilma and Rita. Flooding and debris prohibited access to damaged or destroyed property, delaying loss verifiers' ability to assess damage for weeks after Hurricane Katrina. Victims being scattered across the United States after evacuation made the process even more difficult. The unparalleled number of applications reached over 383,000, more than 9 times Hurricane Andrew. Our response has been Agency-wide, from the 4,200 people working in our Office of Disaster Assistance to the hundreds of staff in our district offices across the country who are helping to process loans.

SBA has already surpassed by more than \$2 billion what was previously the largest response (in dollars approved) in its history, the 1994 Northridge Earthquake in California. Following that disaster, it took one year to process 250,000 applications received. In its response to the 2005 Gulf Coast hurricanes, SBA has processed more than 251,000 applications in only six months. More than 86% of business disaster loan applications and 97% of Economic Injury Disaster Loan applications received to date have been processed. More than 270,000 damaged properties have been inspected.

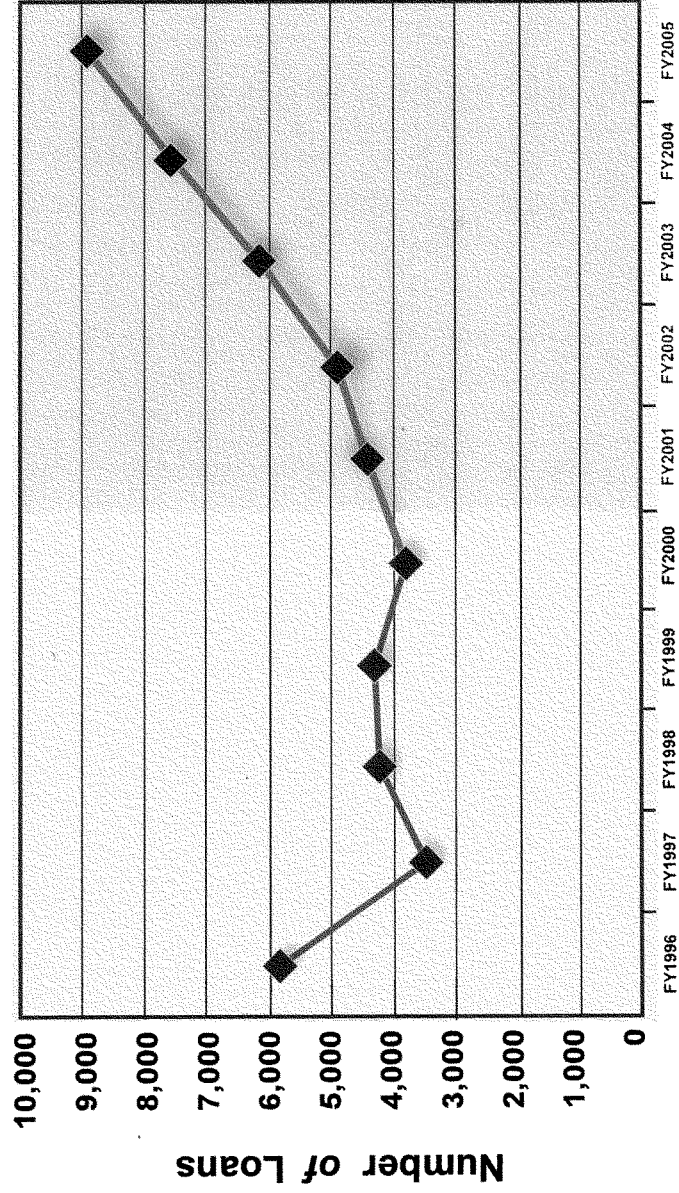
Unfortunately, throughout the course of a "normal" year, numerous other natural disasters occur. The FY 2007 Budget requests funding to support \$900 million for loans to homeowners and businesses struck by natural disaster, an estimate based on the 5 year average.

7(a) Net Loan Approvals (Dollar) (As of COB 2/28/06)

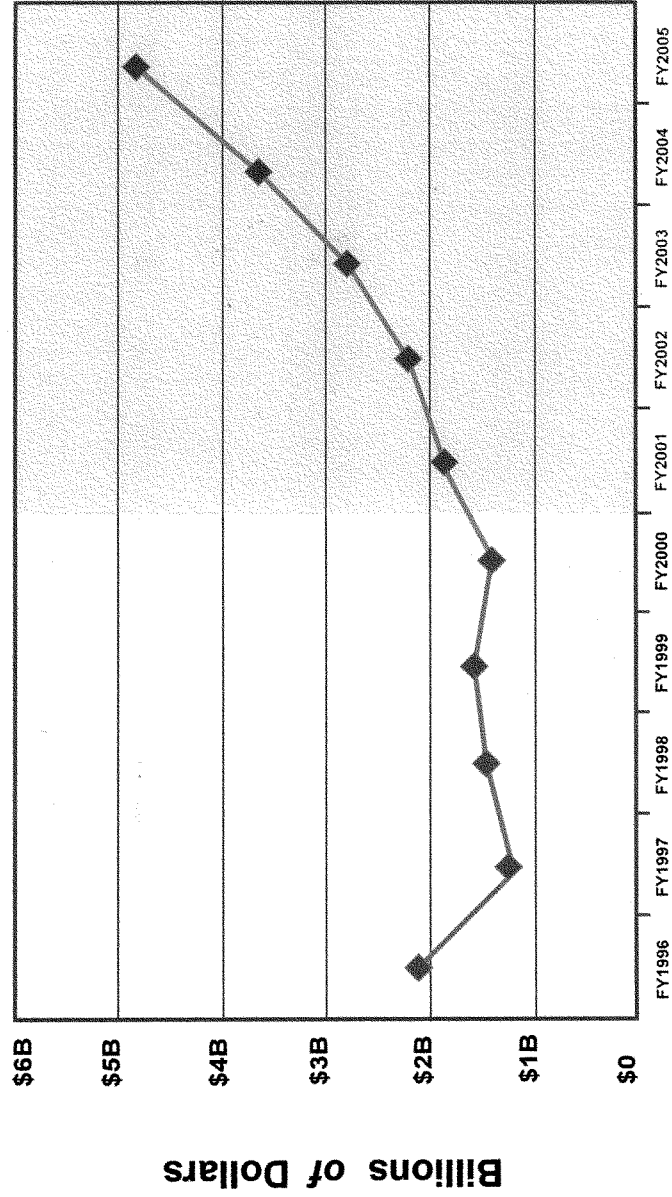


504 Loan Approvals (Number)

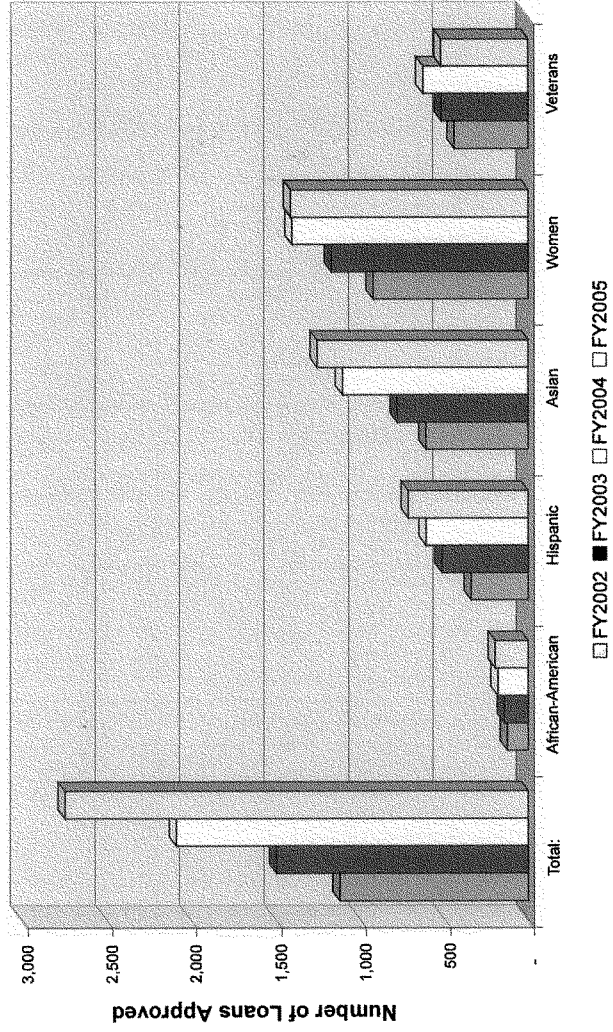
(As of COB 2/28/06)



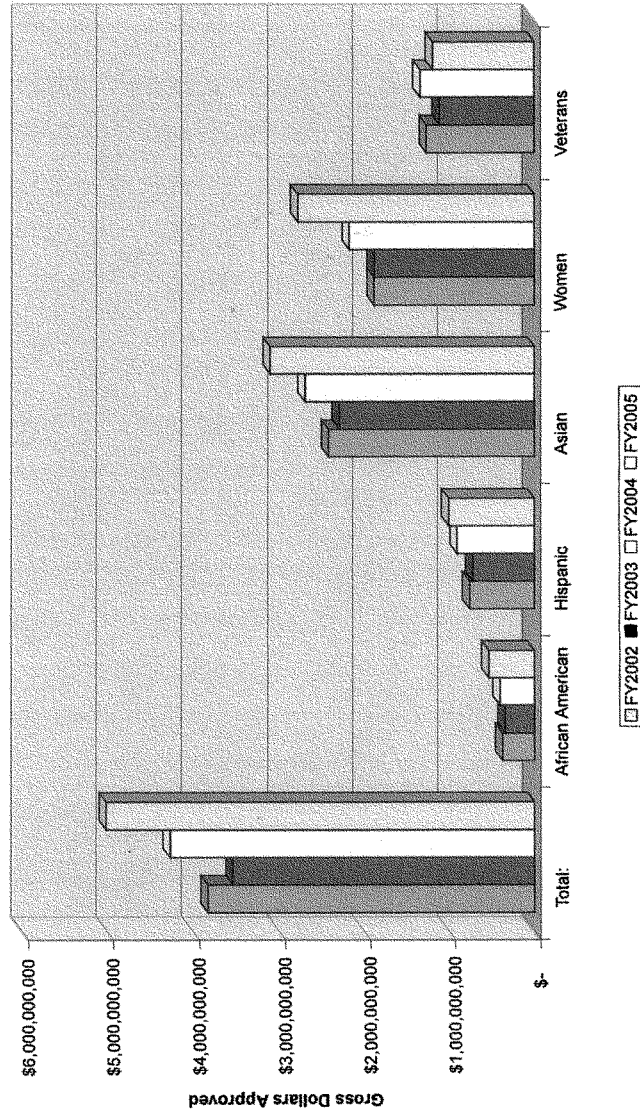
504 Net Loan Approvals (Dollar) (As of COB 2/28/06)



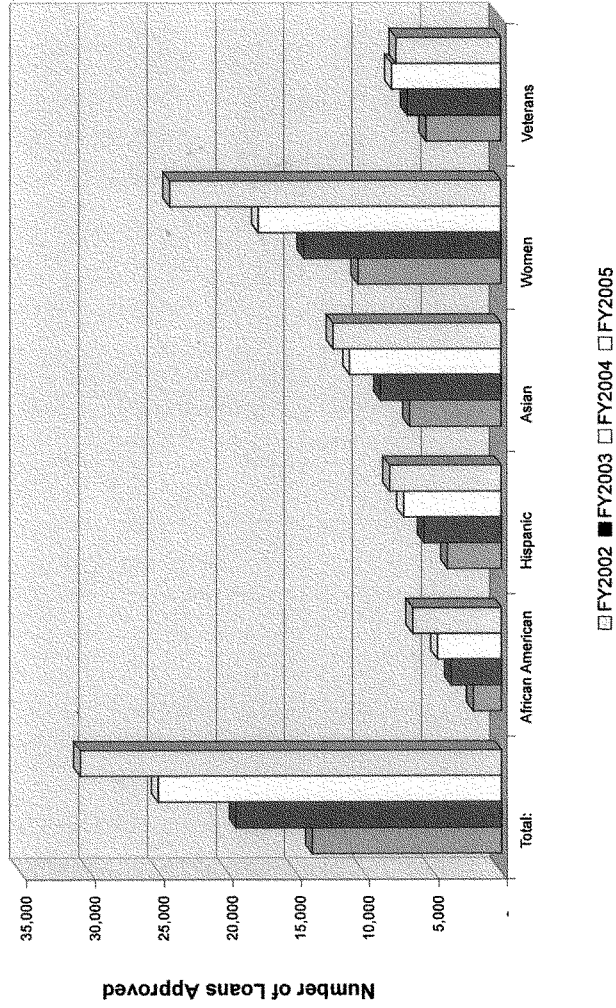
504 Gross Loan Approvals to Minorities FY 2002 - 2005 (in Number) (As of COB 2/28/06)



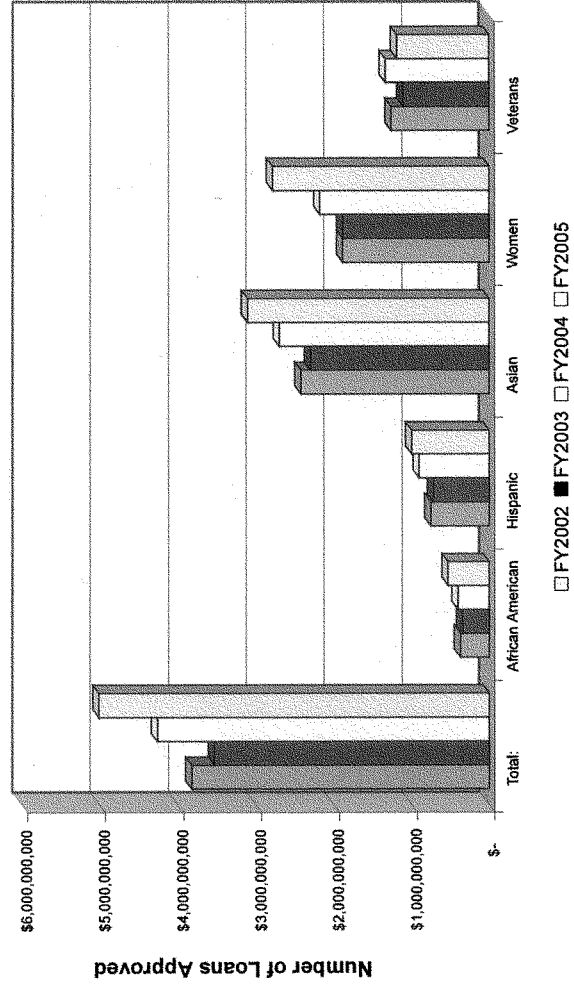
504 Gross Loan Approvals to Minorities FY 2002 – 2005 (in Dollars)
 (As of COB 2/28/06)



7(a) Gross Loan Approvals to Minorities FY 2002 - 2005 (in Number) (As of COB 2/28/06)



7(a) Gross Loan Approvals to Minorities FY 2002 - 2005 (in dollars) (as of COB 2/28/06)



Home Loans vs. Business Loans

Impact of Raising Disaster Interest Rates for No Credit Elsewhere
 Borrowers after Five Years to Treasury Rates
 (As of COB 2/27/06)

	Home Loans	Business Loans
Interest Rate-Current Law- (No Credit Elsewhere Rate)	3.25%	4.00%
Average Monthly Payment- Current Law	\$111	\$418
Interest Rate after 5 Years- Proposal	5.43%	5.43%
Monthly Payment after 5 Years- Proposal	\$125	\$448
Increase in Monthly Payment after 5 Years	\$14	\$31
Percentage Increase in Monthly Payment	13%	7%

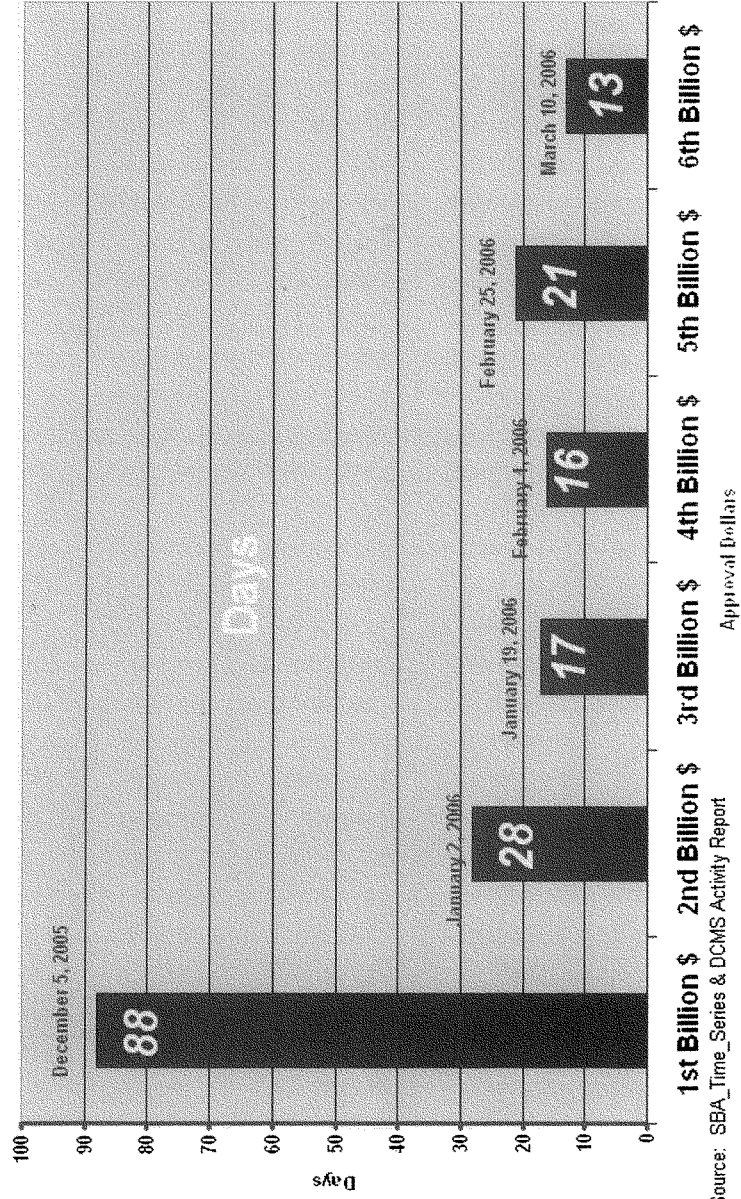


History of Loans and Fees

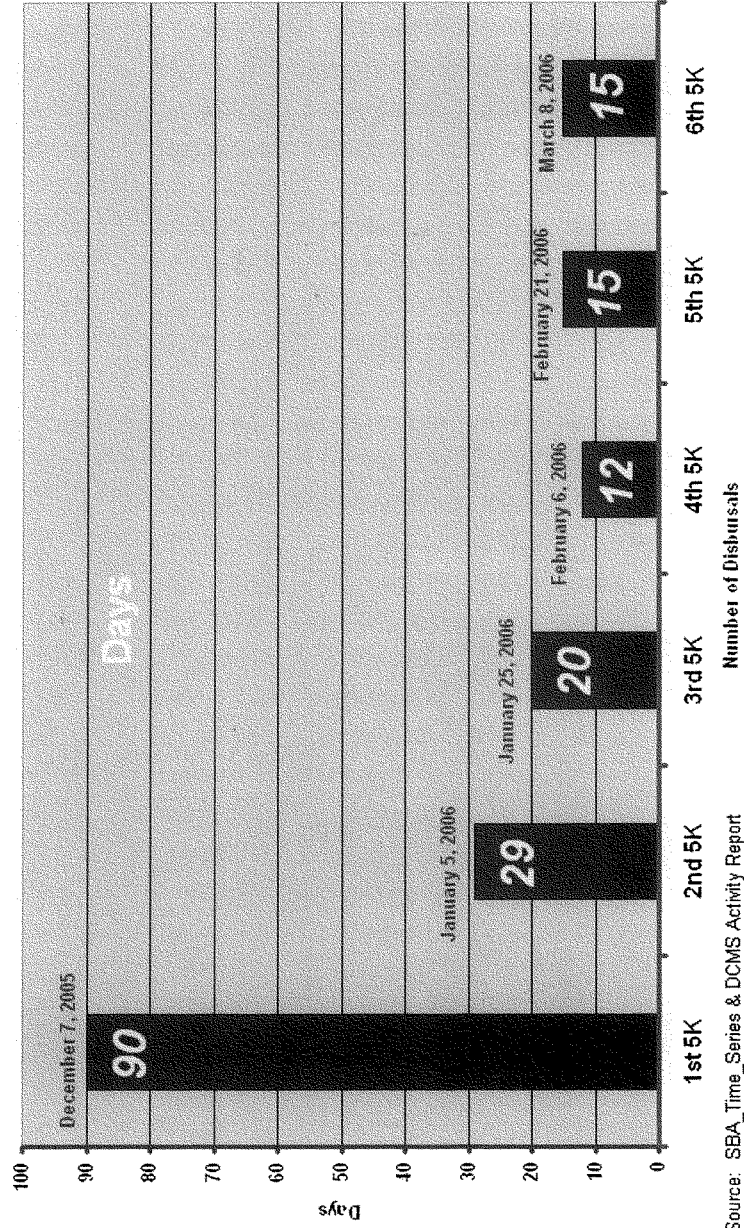
(As of 3/3/06)

Actual Fee Levels	504 Fee Levels:	SBIC Debentures:	7(a) Borrower Under \$150,000	7(a) Borrower \$150,001-\$700,000	7(a) Borrower \$700,000 +	7(a) Lender
2000	0.60%	1.00%	2.00%	3.00%	3.50%	0.50%
2001	0.47%	0.88%	2.00%	3.00%	3.50%	0.50%
2002	0.41%	0.87%	1.00%	2.50%	3.50%	0.50%
2003	0.43%	0.89%	1.00%	2.50%	3.50%	0.50%
Oct-April 2004	0.39%	0.86%	1.00%	2.50%	3.50%	0.25%
June-April 2004	0.39%	0.86%	1.00%	2.50%	3.50%	0.36
2005	0.44%	0.87%	2.00%	3.00%	3.50%	0.50%
2006	0.34%	0.94%	2.00%	3.00%	3.50%	0.545%
2007* (Projected)	0.16%	0.91%	2.00%	3.00%	3.50%	0.55%

Days to a Billion Dollars in Approvals for Katrina, Rita & Wilma



Days to Five Thousand Disbursements for Katrina, Rita & Wilma





SBA DISASTER RECOVERY TESTIMONIALS

I would like to send my sincere thanks to the SBA Administration and Staff of all of the help in doing the paperwork and processing of our SBA loan. It was very quick and easy to do with all of the support here in Mississippi. This loan will be a very big help in rebuilding our business.

We really appreciate the SBA Director for delivering our check in person to City Hall in Gulfport.

Thanks again for all you have done.

Rance & Poem Love
Gulfport, MS

We applied for an SBA loan in October after the storm. In about a week we had a call from an SBA representative in Dallas. The next week we were contacted by Mr. Don Bock. He was the nicest, most helpful man. Then we were sent downtown and a Ms Patti Fair assisted with our loan closing. She was most helpful and considerate of our needs.

When dealing with the government, it is a scary process. We cannot praise the SBA enough for helping to ease our anxiety. Michael Lampton has called us and arranged out meeting at City Hall to complete our loan process, and has checked on is various times to be sure everything was going as planned. It has been a great experience dealing with all the representatives and we really felt that they cared about our families and our business. It has truly been a blessing to us, and we are most grateful for the SBA's assistance in this very difficult time.

Iris McBride
President
C.I.A., Inc.
Gulfport, MS

The SBA Disaster Assistance program is helping me to get my business back in operation. They were helpful in assisting me to get the funds to help repair my restaurant.

I appreciate everything the SBA team of people is doing to help me and other people in New Orleans and other hurricane affected areas of Louisiana.

Again, thank you.

Tommy Andrade
Tommy's Cuisine
New Orleans, LA

My name is Carlos Mitchell Ellis, co-owner of Mitchell Ellis Products, Inc. I am writing in reference to the service provided to us by Carter Crouch. I feel he has gone beyond his call of duty to provide excellent service to disaster victims. His genuine concern has been most impressive.

I simply wanted to write a quick note to let you know how wonderful he was to work with.

Many thanks,

Mitchell Ellis
Semmes, AL

I would like to take this opportunity to thank you for an excellent job your staff is doing for the people of d'Iberville, Mississippi. I am an advocate for the elderly and disabled people of our small community. I work for a medical family practice and have contact with most in our small town. Some federal agencies are not always polite, nor patient with our elderly, but the people I have spoken with have only kind words to describe the SBA.

One person I would like to recognize is my loan officer, Tobin Thompson. He has answered so many questions and offered so many questions and offered such compassion for our losses. He is highly efficient and most knowledgeable. He provides reassurances that everything will end up for the best for me and my family and the people in our town. He always makes time to listen to me and offers assistance with our concerns. His wit is phenomenal, which puts the caller at ease, but he is always professional. SBA is fortunate to have such a great employee like Mr. Thompson.

Thank you for being there for our community,

Gerald and Susan Burdine
d'Iberville, MS

I would like to thank you for your promptness. During this most difficult time when most are homeless due to Hurricane Katrina, I was very impressed to have a SBA investigator at my residence today. He was very prompt and courteous. He was also encouraging and gave me and my family hope.

We are homeless. Our home was destroyed from the storm and people like SBA are an answer to our prayers.

May God Bless you.

Susan and Gerald Burdine
D'Iberville, MS

Hat's off to SBA for a Great Job!

I want to take some time to express my appreciation for the courteous, helpful, and friendly help I received when applying for my disaster equity loan. The team at SBA made the process painless, and I felt, quickly handled.

I wish to acknowledge the team who processed my loan. They were helpful at each stage.

Let me recount my experience. I was greeted at the field office in Galveston by a helpful and efficient person who took my paperwork and reviewed it with me to ensure all was in order – this was a very quick and professional process. Within ten days I was contacted by Cindy Leather, who went over my application and asked me some questions to clarify the application. Two days later she called to tell me my application had been passed on with a recommendation to approve. Four days later Vanessa Bob called. She was getting the documents together for closing. When she and I went over the documents, she noted an error. She called back within ten minutes with a solution. I was contacted the next day by John Schoenthaler who helped me by offering suggestions that would expedite the movement of the documents. I supplied him with the documents he needed that day. The next day all was in order and he sent my documents along to set up for a field closing.

With the large number of applications you must have, I put this as unbelievably fast and efficient service. Great job SBA! Be proud of your efforts!

I would conclude that the complaints I see in the media must come from people who have not provided all of the information you need to process for their loan. On that account, I would offer the following: the web information was simple and easy to read. By following the directions, I was able to collect the data and put the application together in about four hours. I used the checklist to ensure that I had not left anything out. When others complain, I think they should look at their preparation and take responsibility if they have not followed the simple requests and directions.

I will never be able to thank you enough for your help. Your efforts have kept a twenty year-old business, something I have worked to develop, from going away. You have further preserved the jobs of others who have worked here for a long time. In a word – thanks!

Appreciatively,

Vince Morvillo
Chardee, Inc. / DBA Sea Lake Yacht Sales
Kemah, TX

I just wanted to thank the SBA family for helping me.

After hurricane Katrina struck the Gulf Coast, the first money I received came from the SBA. When Allstate wasn't there for me the SBA was. When FEMA wasn't there for me the SBA was. Even when someone from the SBA wasn't there for me someone else from the SBA picked up the ball and who was there for me? You guessed it... the SBA was. When Allstate and FEMA said they wanted to help me and didn't the SBA did.

I live in Ocean Springs, MS and the area's around me look like a third world country. Of the major organizations I've dealt with, only the SBA hasn't treated me like a third world citizen. Of course, everything hasn't been smooth and easy with the SBA. There was a glitch here and there in the beginning but they fixed it...and fixed it fast.

From where I sit, it's easy to see the difference between the SBA and everyone else when it comes to this "hurricane Katrina how can I help you" debacle. Plain and simple... the SBA gets it. They figured it out. They didn't just say they would help. They actually DID help. The one thing the SBA hasn't done that all the other major agencies and organizations I've dealt with have done is give me a reason why they can't help me. I'm far from an expert on these things, but the SBA must not be as qualified to be incompetent as the other agency's organizations and businesses I've dealt with.

Sure it's a loan. Sure I have to pay it back. Is it perfect? No. Is it the money my insurance company owes me? No. It is a beginning to the end of the rebuilding? Yes.

To everyone at the SBA I want to say thank you. You did it right.

Billy Harrison
Unknown, MS

Small Business Administration assisted us with our business loan to open Unique Imports. They have now come to our aid with a SBA disaster loan to help us over come the economic injury caused by Hurricane Katrina and have assisted us with the disaster clean up and repairs to our business.

We wish to thank the SBA/FEMA center in Ocean Springs, MS and the other SBA officers that helped us with the necessary information to file our applications.

Emily Aycock
Unique Imports
Ocean Springs, MS

I have been approved for SBA assistance to repair my restaurant following Hurricane Katrina. I was treated very well by SBA workers that helped me with my situation. This was the first time I had to apply with SBA. A SBA lady in Dallas and in New Orleans worked with me to get my application processed. I am very pleased. Thank you.

Agustin Lopez
Agustin Lopez-Smilie's Restaurant
Jefferson, LA

My name is Gail T. Marigny and I am a victim of Hurricane Katrina, the hurricane that devastated Louisiana and Mississippi Gulf coasts. I lost all of my worldly possessions and my home of 22 years in a matter of hours. Hope is what I needed and hope is what Mr. Jeffery Passareli gave me.

Being devastated and distraught for months, I did not know what to expect. Mr. Passareli went beyond his duty of assessing the loss of my home; he treated me like a human being by being very considerate of my feelings. He should be commended on his professionalism and sensitivity.

He is a great asset to your group and I hope he will continue to be there for a long time and work in a capacity where he can show others to be compassionate.

Gail T. Marigny
New Orleans, LA

Thank you for your help, you are the only person, the ONLY person, that I have spoken with in a number of agencies that was courteous, helpful, intelligent and professional in dealing with my application for disaster assistance.

Thank you again,

Sincerely,

Riston and Elizabeth Arnold
Long Beach, Mississippi

Testimony
of
Patricia Smith
Before the House Small Business Committee
Hearing on "SBA's FY 07 Budget Request and Reauthorization"
March 15, 2006

Chairman Manzullo, Ranking Member Velázquez, and Members of the House Small Business Committee, I am Patricia Smith, a co-owner, along with my husband, of PEMBA Lighting and Automation in New Orleans, Louisiana.

PEMBA is a small business with five to seven employees. We have been in business for eight years. Before Katrina hit, our business was doing well, in fact we were expanding. My husband and I were relying on PEMBA to be the family's primary source of income.

The day that Hurricane Katrina hit our city, the livelihood of our business came to a sudden halt. The building was flooded; we had no electricity for a month, and no phone or internet service for months – it seemed as if our business was doomed.

Today, I would like to share with you our experiences in trying to get assistance from the SBA to recover our business after the disaster. The truth is that my experience is not unique. You could bring in hundreds of small business owners from the Gulf Coast region, and these ordeals would be echoed.

Within a few weeks after the hurricane, I placed calls and visited the Disaster Recovery Center to meet with SBA personnel. They strongly encouraged me to apply for both a personal and business loan. On September 19, I hand delivered my completed SBA loan applications, including tax returns. I had questions about the process, but was told that someone would contact me within three weeks and I would be able to ask my questions then.

While waiting to hear if our loan was approved, we continued to struggle with the mounting losses of our business. We could no longer pay salaries and had to let employees go. My husband had to get another job for us to even be able to pay the bills. Work continued to come in, but with the lack of staff we were not able to handle the workload.

I waited over two months to hear the status of my loan application. In late November, I was told that SBA did not have all of the information needed to file my request – and they could not locate my tax returns.

My heart sank! About a week later, I received a phone call from another SBA employee telling me that he had all of my information and did not know why I was asked to refax the tax information. After already experiencing these delays, I began to wonder about the organization and the thoroughness of the SBA loan process.

About a week later, I received a request regarding the depreciation method used on our property in 2004. An SBA employee contacted me to tell me that we may not be able to get a loan since our property had been depreciated by 50 percent. December 9 is when this sad reality sunk in, and we were denied a loan for both our home and business. We had insufficient collateral and therefore were denied any possibility of getting an SBA loan. This was devastating news and it did not seem like it acceptable criteria for approving a loan after such a natural disaster. Of course, we had problems with our assets, they were flooded.

After hearing from friends and associates that everyone was being denied assistance from the SBA and that people were beginning to appeal those decisions, I embarked on a letter writing campaign to get the SBA to reconsider my loan. On February 16, I faxed a letter of appeal to the SBA. I pointed out our credit worthiness, number of years in operation, company growth and that we are indeed responsible individuals who pay our bills – things that you would expect to be important with a disaster loan. On February 24, I was able to confirm receipt of my appeal letter.

On March 3, I received a message to call the SBA. It took me two days to get through and leave a message for the person who called me. I received a call back later that day and was asked to send an updated Profit and Loss Statement. Frustrated by how simple communications take enormous effort, I lectured the SBA employee. I was amazed at how the delays, affecting the livelihood of my small business, did not seem to be important.

This process began for me and my husband on September 19. Time is critical in these situations. Today nearly 6 months later, we are still waiting for assistance from SBA, and we still have nothing!

The fact of the matter is that there are thousands who have been declined but have not gone on a letter writing campaign. This is what we have to do to get the agency's attention? I am a registered Republican – I am not here to play politics – I am here to represent the needs of thousands of small business owners just like myself in the Gulf Coast.

We need assistance now – and we need a champion for our interests. The SBA has NOT been that champion – instead throughout this ordeal, the agency, while it has a lot of good people, has been wasting my time. I can tell you from firsthand knowledge – the assistance they talk about is not reaching the people that need it the most.

Thank you for allowing me to appear before the committee today and letting me share my story. At this time, I'd appreciate it if you would ask me questions. Feel free to challenge my story and allow me to respond by what is truly happening and providing suggestions about improving the process for small businesses like mine. Your committee is the only hope for small businesses, whether it is from the Katrina disaster or future ones! Thank you.